BANCO SANTANDER CHILE
Form 20-F
May 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2015**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 1-14554

**BANCO SANTANDER-CHILE**
(d/b/a Santander, Banco Santander, Banco Santander Santiago, and Santander Santiago)
(Exact name of Registrant as specified in its charter)

**SANTANDER-CHILE BANK**
(d/b/a Santander, Banco Santander, Santander Santiago Bank, and Santander Santiago)
(Translation of Registrant's name into English)

**Chile**
(Jurisdiction of incorporation or organization)

**Bandera 140, 20th floor**
**Santiago, Chile**
**Telephone: 011-562-320-2000**
(Address of principal executive offices)

Robert Moreno Heimlich

Tel: 562-2320-8284, Fax: 562-696-1679, email: robert.moreno@santander.cl

Bandera 140, 20th Floor, Santiago, Chile

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
| --- | --- |
| American Depositary Shares ("ADS"), each representing the right to receive 400 Shares of Common Stock without par value | New York Stock Exchange |
| Shares of Common Stock, without par value* | New York Stock Exchange |

* Santander-Chile's shares of common stock are not listed for trading, but only in connection with the registration of the American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**
(Title of Class)

The number of outstanding shares of each class of common stock of Banco Santander-Chile at December 31, 2015, was:

**188,446,126,794 Shares of Common Stock, without par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made statements in this Annual Report on Form 20-F that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this report and include statements regarding our intent, belief or current expectations regarding:

- asset growth and alternative sources of funding
- growth of our fee-based business
- financing plans
- impact of competition
- impact of regulation
- exposure to market risks including:
- interest rate risk
- foreign exchange risk
- equity price risk
- projected capital expenditures
- liquidity
- trends affecting:

- our financial condition
- our results of operation

The sections of this Annual Report which contain forward-looking statements include, without limitation, "Item 3. Key Information—Risk Factors," "Item 4. Information on the Company—B. Business Overview—Competition," "Item 5. Operatin and Financial Review and Prospects," "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings," and "Item 11. Quantitative and Qualitative Disclosures About Market Risk." Our forward-looking statements also may be identified by words such as "believes," "expects," "anticipates," "projects," "intends," "should," "could," "may," "seeks," "aim," "combined," "estimates," "probability," "risk," "VaR," "target," "goal," "objective,' expressions.

You should understand that the following important factors, in addition to those discussed elsewhere in this Annual Report and in the documents which are incorporated by reference, could affect our future results and could cause those results or other outcomes to differ materially from those expressed in our forward-looking statements:

- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;
- changes in economic conditions;
- the monetary and interest rate policies of Central Bank (as defined below);
- inflation;
- deflation;
- unemployment;

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- increases in defaults by our customers and in impairment losses;
- decreases in deposits;
- customer loss or revenue loss;
- unanticipated turbulence in interest rates;
- movements in foreign exchange rates;
- movements in equity prices or other rates or prices;
- the effects of non-linear market behavior that cannot be captured by linear statistical models, such as the VaR model we use;
- changes in Chilean and foreign laws and regulations;
- changes in taxes;
- competition, changes in competition and pricing environments;
- our inability to hedge certain risks economically;
- the adequacy of loss allowances;
- technological changes;
- changes in consumer spending and saving habits;
- changes in demographics, consumer spending, investment or saving habits;
- increased costs;

- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms;
- changes in, or failure to comply with, banking regulations;
- acquisitions or restructurings of businesses that may not perform in accordance with our expectations;
- our ability to successfully market and sell additional services to our existing customers;
- disruptions in client service;
- damage to our reputation;
- natural disasters;
- implementation of new technologies;
- the Group's exposure to operational losses (e.g., failed internal or external processes, people and systems); and
- an inaccurate or ineffective client segmentation model.

You should not place undue reliance on such statements, which speak only as of the date at which they were made. The forward-looking statements contained in this report speak only as of the date of this Annual Report, and we do not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

CERTAIN TERMS AND CONVENTIONS

As used in this annual report (the "Annual Report"), "Santander-Chile", "the Bank", "we," "our" and "us" or similar terms refe
Banco Santander-Chile together with its consolidated subsidiaries.

When we refer to "Santander Spain," we refer to our parent company, Banco Santander, S.A. References to "the Group," "Santander Group" or "Grupo Santander" mean the worldwide operations of the Santander Spain conglomerate, as indirectly controlled by Santander Spain and its consolidated subsidiaries, including Santander-Chile.

As used in this Annual Report, the term "billion" means one thousand million (1,000,000,000).

In this Annual Report, references to "$", "U.S.$", "U.S. dollars" and "dollars" are to United States dollars; references to "Chilean pesos," "pesos" or "Ch$" are to Chilean pesos; references to "CHF" or "CHF$" are to Swiss francs; references to "CN
or "CNY$" are to Chinese yuan renminbi); and references to "UF" are to *Unidades de Fomento*. The UF is an inflation-indexed Chilean monetary unit with a value in Chilean pesos that changes daily to reflect changes in the official Consumer Price Index ("CPI") of the *Instituto Nacional de Estadísticas* (the Chilean National Institute of Statistics) for the previous month. See "Item 3. Key Information—A. Selected Financial Data—Exchange Rates" for information regarding exchange rates.

As used in this Annual Report, the terms "write-offs" and "charge-offs" are synonyms.

In this Annual Report, references to the Audit Committee are to the Bank's *Comité de Directores y Auditoría*.

In this Annual Report, references to "BIS" are to the Bank for International Settlement, and references to "BIS ratio" are to the capital adequacy ratio as calculated in accordance with the Basel Capital Accord. References to the "Central Bank" are to the *Banco Central de Chile*. References to the SBIF are to the Superintendency of Banks and Financial Institutions.

Certain figures included in this Annual Report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

PRESENTATION OF FINANCIAL INFORMATION

Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos and prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Any reference to IFRS in this document is to IFRS as issued by the IASB.

As required by local regulations, our locally filed consolidated financial statements have been prepared in accordance with Chilean accounting principles issued by the SBIF ("Chilean Bank GAAP"). Therefore, our locally filed consolidated financial statements have been adjusted to IFRS in order to comply with the requirements of the Securities and Exchange Commission (the "SEC"). Chilean Bank GAAP principles are substantially similar to IFRS but there are some exceptions. For further details and a discussion of the main differences between Chilean Bank GAAP and IFRS, see to "Item 5. Operating and Financial Review and Prospects—Accounting Standards Applied in 2015."

This Annual Report contains our consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 (the "Audited Consolidated Financial Statements"). Such Audited Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB, and have been audited by Deloitte Auditores y Consultores Limitada, independent registered public accounting firm. See page F-2 of the Audited Consolidated Financial Statements for the 2015 report prepared by Deloitte Auditores y Consultores Limitada. The Audited Consolidated Financial Statements have been prepared from accounting records maintained by the Bank and its subsidiaries.

The notes to the Audited Consolidated Financial Statements form an integral part of the Audited Consolidated Financial Statements and contain additional information and narrative descriptions or details of these financial statements.

We have formatted our financial information according to the classification format for banks in Chile for purposes of IFRS. We have not reclassified the line items to comply with Article 9 of Regulation S-X. Article 9 is a regulation of the SEC that contains formatting requirements for bank holding company financial statements.

Functional and Presentation Currency

The Chilean peso is the currency of the primary economic environment in which the Bank operates and the currency that influences its structure of costs and revenues, and in accordance with International Accounting Standard 21 – *The Effects of Changes in Foreign Exchange Rates* has been defined as the functional and presentation currency. Accordingly, all balances and transactions denominated in currencies other than the Chilean peso are treated as "foreign currency."

For presentational purposes, we have translated millions of Chilean pesos (Ch$ million) into thousands of U.S. dollars (U.S.$ thousand) using the rate as indicated below under "Exchange Rates," for the financial information included in this Annual Report. See "Note 1—Summary of Significant Accounting Principles—e) Functional and presentation currency."

Loans

Unless otherwise specified, all references herein (except in the Audited Consolidated Financial Statements) to loans are to loans and financial leases before deduction for loan loss allowance, and, except as otherwise specified, all market share data presented herein is based on information published periodically by the SBIF. Non-performing loans include the entire principal amount and accrued but unpaid interest on loans for which either principal or interest is past-due for 90 days or more and which do not accrue interest. Restructured loans for which no payments are past-due are not ordinarily classified as non-performing loans. See "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Classification of Loan Portfolio Based on the Borrower's Payment Performance."

Under IFRS, a loan is evaluated on each financial statement reporting date to determine whether objective evidence of impairment exists. A loan will be impaired if, and only if, objective evidence of impairment exists as a result of one or more events that occurred after the initial recognition of the loan, and such event or events have an impact on the estimated future cash flows of such loan that can be reliably estimated. It may not be possible to identify a single event that was the individual cause of the impairment.

An impairment loss relating to an individually significant loan recorded at amortized cost which has experienced objective evidence of impairment is calculated as the difference between the recorded amount of the loan and the fair value of the collateral less costs to sell (practical expedient as allowed under IAS 39, "Financial Instruments", Application Guidance paragraph 84).

Those loans individually assessed for impairment and found not to be individually impaired are included in the loans collectively assessed for impairment (so that the collective assessment includes both the remainder of the loans not individually assessed and those not found to be individually impaired) where grouping of such loans on a collective basis is performed using similar credit characteristics.

The reversal of an impairment loss occurs only if it can be objectively related to an event occurring after the initial impairment loss was recorded. In the case of loans recorded at amortized cost, the reversal is recorded in income. See "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Analysis of Loan Loss Allowances."

Outstanding loans and the related percentages of our loan portfolio consisting of corporate and consumer loans in the section entitled "Item 4. Information on the Company—B. Business Overview" are categorized based on the nature of the borrower. Outstanding loans and related percentages of our loan portfolio consisting of corporate and consumer loans in the section entitled "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information" are categorized in accordance with the reporting requirements of the SBIF, which are based on the type and term of loans. This disclosure is consistent with IFRS.

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Effect of Rounding

Certain figures included in this Annual Report and in the Audited Consolidated Financial Statements have been rounded up for ease of presentation. Percentage figures included in this Annual Report have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this Annual Report may vary from those obtained by performing the same calculations using the figures in the Audited Consolidated Financial Statements. Certain other amounts that appear in this Annual Report may not sum due to rounding.

Economic and Market Data

In this Annual Report, unless otherwise indicated, all macroeconomic data related to the Chilean economy is based on information published by the Central Bank, and all market share and other data related to the Chilean financial system is based on information published by the SBIF and our analysis of such information. Information regarding the consolidated risk index of the Chilean financial system as a whole is not available.

Exchange Rates

This Annual Report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in preparing the Audited Consolidated Financial Statements, could be converted into U.S. dollars at the rate indicated, were converted or will be converted at all.

Unless otherwise indicated, all U.S. dollar amounts at any year end, for any period have been translated from Chilean pesos based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period. On December 31, 2014 and 2015 the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$608.33 and Ch$707.80 respectively, or 0.16% and 0.06% more, respectively, than the observed exchange rate published by the Central Bank for such date of Ch$607,38 and Ch$707.34 respectively, per U.S.$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for the Chilean peso. For more information on the observed exchange rate, see “Item 3. Key Information—A. Selected Financial Data—Exchange Rates” of the Annual Report.

As of December 31, 2014 and 2015, one UF was equivalent to Ch$24,627.10 and Ch$25,629.09, respectively. The U.S. dollar equivalent of one UF was U.S.$36.21 as of December 31, 2015, using the observed exchange rate reported by the Central Bank as of December 30, 2015 of Ch$36.23 per U.S.$1.00.

PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

### A. Selected Financial Data

The following table presents selected historical financial information for Santander-Chile as of the dates and for each of the periods indicated. Financial information for Santander-Chile as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011 has been derived from our Audited Consolidated Financial Statements prepared in accordance with IFRS. In the F-pages of this Annual Report on Form 20-F, our audited financial statements for the years 2015, 2014 and 2013 are presented. The audited financial statements for 2012 and 2011 are not included in this document, but they can be found in our previous Annual Reports on Form 20-F. These consolidated financial statements differ in some respects from our locally filed financial statements at and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011 prepared in accordance with Chilean Bank GAAP.

The following table should be read in conjunction with, and is qualified in its entirety by reference to, our Audited Consolidated Financial Statements appearing elsewhere in this Annual Report.

| | As of and for the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | 2015 | 2014 | 2013 | 2012 | 2011 |
| | In U.S.$ thousands(1) | In Ch$ millions (2) | | | | |
| CONSOLIDATED STATEMENT OF INCOME DATA (IFRS) | | | | | | |
| Net interest income | 1,773,391 | 1,255,206 | 1,317,104 | 1,076,762 | 1,042,734 | 972,300 |
| Net fee and commission income | 335,727 | 237,627 | 227,283 | 229,836 | 270,572 | 277,836 |
| Financial transactions, net | 205,565 | 145,499 | 112,565 | 124,437 | 82,299 | 94,197 |
| Other operating income | 9,097 | 6,439 | 6,545 | 88,155 | 13,105 | 18,749 |
| Net operating profit before provision for loan losses | 2,323,780 | 1,644,771 | 1,663,497 | 1,519,190 | 1,408,710 | 1,363,082 |
| Provision for loan losses | (564,110) | (399,277) | (354,903) | (371,462) | (403,692) | (316,137) |
| Net operating profit | 1,759,670 | 1,245,494 | 1,308,594 | 1,147,728 | 1,005,018 | 1,046,945 |
| Total operating expenses | (1,017,177) | (719,958) | (683,819) | (610,191) | (599,379) | (564,655) |
| Operating income | 742,493 | 525,536 | 624,775 | 537,537 | 405,639 | 482,290 |
| Income from investments in associates and other companies | 3,656 | 2,588 | 2,165 | 1,422 | 267 | 2,140 |
| Income before tax | 746,149 | 528,124 | 626,940 | 538,959 | 405,906 | 484,430 |
| Income tax expense | (107,933) | (76,395) | (51,050) | (94,530) | (44,473) | (77,308) |
| Net income for the year | 638,216 | 451,729 | 575,890 | 444,429 | 361,433 | 407,122 |
| Net income for the period attributable to: | | | | | | |
| Equity holders of the Bank | 633,606 | 448,466 | 569,910 | 442,294 | 356,808 | 402,191 |
| Non-controlling interests | 4,610 | 3,263 | 5,980 | 2,135 | 4,625 | 4,931 |
| Net income attributable to Equity holders of the Bank per share | 3.36 | 2.38 | 3.02 | 2.35 | 1.89 | 2.13 |
| Net income attributable to Equity holders of the Bank per ADS (3) | 1,344.90 | 951.92 | 1,208.00 | 938.83 | 757.37 | 2,217.48 |
| Weighted-average shares outstanding (in millions) | 188,446.1 | 188,446.1 | 188,446.1 | 188,446.1 | 188,446.1 | 188,446.1 |
| Weighted-average ADS outstanding (in millions) (3) | 471.1 | 471.1 | 471.1 | 471.1 | 471.1 | 181.4 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA (IFRS) | | | | | | |
| Cash and deposits in banks | 2,917,217 | 2,064,806 | 1,608,888 | 1,571,810 | 1,250,414 | 2,793,701 |
| Cash items in process of collection | 1,023,624 | 724,521 | 531,373 | 604,077 | 520,267 | 276,454 |
| Trading investments | 458,139 | 324,271 | 774,815 | 287,567 | 338,287 | 409,763 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Investments under resale agreements | 3,480 | 2,463 | - | 17,469 | 6,993 | 12,928 |
| Financial derivative contracts | 4,529,424 | 3,205,926 | 2,727,563 | 1,494,018 | 1,293,212 | 1,601,896 |
| Interbank loans, net | 13,720 | 9,711 | 11,942 | 124,954 | 90,414 | 87,677 |
| Loans and accounts receivable from customers, net | 34,654,910 | 24,528,745 | 22,196,390 | 20,320,874 | 18,326,190 | 16,858,637 |
| Available for sale investments | 2,888,402 | 2,044,411 | 1,651,598 | 1,700,993 | 1,826,158 | 1,661,311 |
| Investments in associates and other companies | 28,693 | 20,309 | 17,914 | 9,681 | 7,614 | 8,728 |
| Intangible assets | 72,248 | 51,137 | 40,983 | 66,703 | 87,347 | 80,739 |
| Property, plant, and equipment | 340,010 | 240,659 | 211,561 | 180,215 | 162,214 | 153,059 |
| Current taxes | - | - | 2,241 | 1,643 | 10,227 | 37,253 |
| Deferred taxes | 452,850 | 320,527 | 272,118 | 227,285 | 181,875 | 136,521 |
| Other assets | 1,554,357 | 1,100,174 | 927,961 | 514,938 | 657,890 | 550,326 |
| TOTAL ASSETS | 48,937,074 | 34,637,660 | 30,975,347 | 27,122,227 | 24,759,102 | 24,668,993 |
| Deposits and other demand liabilities | 10,392,937 | 7,356,121 | 6,480,497 | 5,620,763 | 4,970,019 | 4,413,815 |
| Cash items in process of being cleared | 652,949 | 462,157 | 281,259 | 276,379 | 284,953 | 89,486 |
| Obligations under repurchase agreements | 203,008 | 143,689 | 392,126 | 208,972 | 304,117 | 544,381 |
| Time deposits and other time liabilities | 17,212,160 | 12,182,767 | 10,413,940 | 9,675,272 | 9,112,213 | 8,921,114 |
| Financial derivative contracts | 4,044,371 | 2,862,606 | 2,561,384 | 1,291,785 | 1,146,161 | 1,292,402 |
| Interbank borrowing s | 1,847,378 | 1,307,574 | 1,231,601 | 1,682,377 | 1,438,003 | 1,920,092 |
| Issued debt instruments | 8,416,353 | 5,957,095 | 5,785,112 | 5,198,658 | 4,571,289 | 4,623,239 |
| Other financial liabilities | 311,567 | 220,527 | 205,125 | 189,781 | 192,611 | 176,599 |
| Current taxes | 25,143 | 17,796 | 1,077 | 50,242 | 525 | 1,498 |
| Deferred taxes | 5,519 | 3,906 | 7,631 | 26,753 | 9,544 | 5,315 |
| Provisions | 388,525 | 274,998 | 285,970 | 217,310 | 191,892 | 187,557 |
| Other liabilities | 1,477,634 | 1,045,869 | 654,557 | 311,479 | 341,274 | 398,977 |
| TOTAL LIABILITIES | 44,977,544 | 31,835,105 | 28,300,279 | 24,749,771 | 22,562,601 | 22,574,475 |
| Capital | 1,259,258 | 891,303 | 891,303 | 891,303 | 891,303 | 891,303 |
| Reserves | 2,158,651 | 1,527,893 | 1,307,761 | 1,130,991 | 975,460 | 802,528 |
| Valuation adjustments | 1,820 | 1,288 | 25,600 | (5,964 ) | (3,781 ) | 2,832 |
| Retained earnings | 497,160 | 351,890 | 417,321 | 327,622 | 299,254 | 364,054 |
| Attributable to Equity holders of the Bank | 3,916,889 | 2,772,374 | 2,641,985 | 2,343,952 | 2,162,236 | 2,060,717 |
| Non-controlling interest | 42,641 | 30,181 | 33,083 | 28,504 | 34,265 | 33,801 |
| TOTAL EQUITY | 3,959,530 | 2,802,555 | 2,675,068 | 2,372,456 | 2,196,501 | 2,094,518 |
| TOTAL LIABILITIES AND EQUITY | 48,937,074 | 34,637,660 | 30,975,347 | 27,122,227 | 24,759,102 | 24,668,933 |

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| | As of and for the years ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| CONSOLIDATED RATIOS (IFRS) | | | | | |
| Profitability and performance: | | | | | |
| Net interest margin (5) | 4.4 % | 4.9 % | 4.6 % | 4.8 % | 4.8 % |
| Return on average total assets (6) | 1.3 % | 1.8 % | 1.6 % | 1.4 % | 1.7 % |
| Return on average equity (7) | 16.0 % | 21.4 % | 18.9 % | 16.5 % | 20.4 % |
| Capital: | | | | | |
| Average equity as a percentage of average total assets (8) | 8.2 % | 8.2 % | 8.7 % | 8.7 % | 8.3 % |
| Total liabilities as a multiple of equity (9) | 11.4 | 10.6 | 10.4 | 10.3 | 10.8 |
| Credit Quality: | | | | | |
| Non-performing loans as a percentage of total loans (10) | 2.5 % | 2.8 % | 2.9 % | 3.2 % | 2.9 % |
| Allowance for loan losses as percentage of total loans | 3.0 % | 2.9 % | 2.9 % | 2.9 % | 2.8 % |
| Operating Ratios: | | | | | |
| Operating expenses /operating revenue (11) | 43.8 % | 41.1 % | 40.2 % | 42.5 % | 41.4 % |
| Operating expenses /average total assets | 2.1 % | 2.1 % | 2.3 % | 2.4 % | 2.3 % |
| | | | | | |
| OTHER DATA | | | | | |
| CPI Inflation Rate (12) | 4.4 % | 4.7 % | 3.0 % | 1.5 % | 4.4 % |
| Revaluation (devaluation) rate (Ch$/U.S.$) at year end (12) | (16.5 %) | (16.0 %) | (9.4 %) | 8.2 % | (11.3 %) |
| Number of employees at period end | 11,723 | 11,478 | 11,516 | 11,713 | 11,566 |
| Number of branches and offices at period end | 471 | 474 | 493 | 504 | 499 |

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2015 have been translated from Chilean pesos at the interbank market exchange rate of Ch$707.80 = U.S.$1.00 as of December 31, 2015 based on the interbank market rate published by Reuters at 1:30 pm on the last business day of the period.

(2) Except per share data, percentages and ratios, share numbers, employee numbers and branch numbers.

(3) On October 22, 2012 the Bank performed an ADR split: for each old ADR, an ADR holder received 2.5975 new ADRs, and the ratio of ADS to shares became 1 ADS = 400 shares. For the years 2010-2011,1 ADS = 1,039 shares of common stock.

(4) Total equity includes equity attributable to Equity holders of the Bank plus non-controlling interests.

(5) Net interest income divided by average interest earning assets (as presented in "Item 5. Operating and Financial Review and Prospects— C. Selected Statistical Information").

(6) Net income for the year divided by average total assets (as presented in "Item 5. Operating and Financial Review and Prospects— C. Selected Statistical Information").

(7) Net income for the year divided by average equity (as presented in "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information").

(8) This ratio is calculated using total average equity (as presented in "Item 5. Operating and Financial Review and Prospects— C. Selected Statistical Information") including non-controlling interest.

(9) Total liabilities divided by equity.

(10) Non-performing loans include the aggregate unpaid principal and accrued but unpaid interest on all loans with at least one installment over 90 days past-due.

(11) The efficiency ratio is equal to operating expenses over operating income. Operating expenses includes personnel salaries and expenses, administrative expenses, depreciation and amortization, impairment and other operating expenses. Operating income includes net interest income, net fee and commission income, net income from financial operations (net trading income), foreign exchange profit (loss), net and other operating income.

(12) Based on information published by the Central Bank.

Exchange Rates

Chile has two currency markets, the *Mercado Cambiario Formal*, or the Formal Exchange Market, and the *Mercado Cambiario Informal*, or the Informal Exchange Market. According to Law 18,840, the organic law of the Central Bank and the Central Bank Act (*Ley Orgánica Constitucional del Banco Central de Chile*), the Central Bank determines which purchases and sales of foreign currencies must be carried out in the Formal Exchange Market. Pursuant to Central Bank regulations currently in effect, all payments, remittances or transfers of foreign currency abroad which are required to be effected through the Formal Exchange Market may be effected with foreign currency procured outside the Formal Exchange Market. The Formal Exchange Market is comprised of the banks and other entities so authorized by the Central Bank. The Informal Exchange Market is comprised of entities that are not expressly authorized to operate in the Formal Exchange Market, such as certain foreign exchange houses and travel agencies, among others. The Central Bank is empowered to require that certain purchases and sales of foreign currencies be carried out on the Formal Exchange Market. The conversion from pesos to U.S. dollars of all payments and distributions with respect to the ADSs described in this Annual Report must be transacted at the spot market rate in the Formal Exchange Market.

Both the Formal and Informal Exchange Markets are driven by free market forces. Current regulations require that the Central Bank be informed of certain transactions and that they be effected through the Formal Exchange Market. In order to keep the average exchange rate within certain limits, the Central Bank may intervene by buying or selling foreign currency on the Formal Exchange Market.

The U.S.$ Observed Exchange Rate (*dólar observado*), which is reported by the Central Bank and published daily in the Chilean newspapers, is the weighted average exchange rate of the previous business day’s transactions in the Formal Exchange Market. The Central Bank has the power to intervene by buying or selling foreign currency on the Formal Exchange Market to attempt to maintain the Observed Exchange Rate within a desired range. Even though the Central Bank is authorized to carry out its transactions at the Observed Exchange Rate, it generally uses spot rates for its transactions. Other banks generally carry out authorized transactions at spot rates as well.

Purchases and sales of foreign currencies may be legally carried out in the Informal Exchange Market. The Informal Exchange Market reflects transactions carried out at informal exchange rates by entities not expressly authorized to operate in the Formal Exchange Market. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. In recent years, the variation between the Observed Exchange Rate and the Informal Exchange Rate has not been significant. On December 31, 2014 and 2015 the exchange rate in the Informal Exchange Market as published by Reuters at 1:30 pm on these days was Ch$608.33 and Ch$707.80 respectively, or 0.16% and 0.06% more, respectively, than the Central Bank’s published observed exchange rate for such date of Ch$607.38 and Ch$707.34, respectively, per U.S.$1.00.

The following table sets forth the annual low, high, average and period-end observed exchange rate for U.S. dollars for each of the following periods, as reported by the Central Bank. We make no representation that the Chilean peso or the U.S. dollar amounts referred to herein actually represent, could have been or could be converted into U.S.

dollars or Chilean pesos, as the case may be, at the rates indicated, at any particular rate or at all. The Federal Reserve Bank of New York does not report a noon buying rate for pesos.

| | Daily Observed Exchange Rate Ch$ Per U.S.$(1) | | | |
|---|---|---|---|---|
| Year | Low(2) | High(2) | Average(3) | Period End |
| 2011 | 455.91 | 533.74 | 483.36 | 521.46 |
| 2012 | 469.65 | 519.69 | 494.99 | 478.60 |
| 2013 | 466.50 | 533.95 | 495.09 | 523.76 |
| 2014 | 524.61 | 621.41 | 570.01 | 607.38 |
| 2015 | 597.10 | 715.66 | 654.25 | 707.34 |

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| Month | Daily Observed Exchange Rate Ch$ Per U.S.$(1) | | | |
|---|---|---|---|---|
| | Low(2) | High(2) | Average(3) | Period End |
| October 2015 | 673.91 | 698.72 | 685.31 | 690.34 |
| November 2015 | 688.94 | 715.66 | 704.00 | 712.63 |
| December 2015 | 693.72 | 711.52 | 704.24 | 707.34 |
| January 2016 | 710.16 | 730.31 | 721.95 | 711.72 |
| February 2016 | 689.18 | 715.41 | 703.51 | 689.18 |
| March 2016 | 671.97 | 694.82 | 682.07 | 675.10 |
| April 2016 (until April 28, 2016) | 657.90 | 682.45 | 670.26 | 668.49 |

Source: Central Bank.

(1) Nominal figures.

(2) Exchange rates are the actual low and high, on a day-by-day basis for each period.

(3) The average of monthly average rates during the year.

Dividends

Under the current General Banking Law, a Chilean bank may only pay a single dividend per year (i.e., interim dividends are not permitted). Santander-Chile's annual dividend is proposed by its Board of Directors and is approved by the shareholders at the annual ordinary shareholders' meeting held the year following that in which the dividend is generated. For example, the 2015 dividend must be proposed and approved during the first four months of 2016. Following shareholder approval, the proposed dividend is declared and paid. Historically, the dividend for a particular year has been declared and paid no later than one month following the shareholders' meeting. Dividends are paid to shareholders of record on the fifth day preceding the date set for payment of the dividend. The applicable record dates for the payment of dividends to holders of ADSs will, to the extent practicable, be the same.

Under the General Banking Law, a bank must distribute cash dividends in respect of any fiscal year in an amount equal to at least 30% of its net income for that year, as long as the dividend does not result in the infringement of minimum capital requirements. The balances of our distributable net income are generally retained for use in our business (including for the maintenance of any required legal reserves). Although our Board of Directors currently intends to pay regular annual dividends, the amount of dividend payments will depend upon, among other factors, our then current level of earnings, capital and legal reserve requirements, as well as market conditions, and there can be no assurance as to the amount or timing of future dividends.

Dividends payable to holders of ADSs are net of foreign currency conversion expenses of The Bank of New York Mellon, as depositary (the "Depositary") and will be subject to the Chilean withholding tax currently at the rate of 35% (subject to credits in certain cases as described in "Item 10. Additional Information—E. Taxation—Material Tax Consequences of Owning Shares of Our Common Stock or ADSs").

Under the Foreign Investment Contract (as defined herein), the Depositary, on behalf of ADS holders, is granted access to the Formal Exchange Market to convert cash dividends from Chilean pesos to U.S. dollars and to pay such U.S. dollars to ADS holders outside Chile, net of taxes, and no separate registration by ADS holders is required. In the past, Chilean law required that holders of shares of Chilean companies who were not residents of Chile to register as foreign investors under one of the foreign investment regimes contemplated by Chilean law in order to have dividends, sale proceeds or other amounts with respect to their shares remitted outside Chile through the Formal Exchange Market. On April 19, 2001, the Central Bank deregulated the Exchange Market and eliminated the need to obtain approval from the Central Bank in order to remit dividends, but at the same time this eliminated the possibility of accessing the Formal Exchange Market. These changes do not affect the current Foreign Investment Contract, which was signed prior to April 19, 2001, which grants access to the Formal Exchange Market with prior approval of the Central Bank. See "Item 10. Additional Information—D. Exchange Controls."

The following table presents dividends declared and paid by us in nominal terms in the past four years:

| Year | Dividend Ch$ mn (1) | Dividend US$ mn (2) | Per share Ch$/share (3) | Per ADS US$/ADS (4) | % over earnings (5) | % over earnings (6) |
|---|---|---|---|---|---|---|
| 2012 | 261,051 | 533.1 | 1.39 | 2.94 | 60 | 65 |
| 2013 | 232,780 | 493.1 | 1.24 | 1.05 | 60 | 65 |
| 2014 | 265,156 | 476.0 | 1.41 | 1.01 | 60 | 60 |
| 2015 | 330,198 | 540.4 | 1.75 | 1.15 | 60 | 58 |
| 2016 (6) | 336,659 | 503.7 | 1.79 | 1.07 | 75 | 75 |

(1) Millions of nominal pesos.

(2) Millions of US$ using the observed exchange rate of the day the dividend was approved in the annual shareholders meeting.

(3) Calculated on the basis of 188,446 million shares.

(4) Dividend in US$ million divided by the number of ADS, which was calculated on the basis of 1,039 shares per ADS for 2012. For 2013, 2014, 2015 and 2016, it is calculated on the basis of 400 shares per ADS.

(5) Calculated by dividing dividend paid in the year by net income attributable to the equity holders of the Bank for the previous year under Chilean GAAP.

(6) Calculated by dividing dividend paid in the year by net income attributable to the equity holders of the Bank for the previous year under **IFRS.**

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the following risk factors, which should be read in conjunction with all the other information presented in this Annual Report. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties that we do not know about or that we currently think are immaterial may also impair our business operations. Any of the following risks, if they actually occur, could materially and adversely affect our business, results of operations, prospects and financial condition.

We are subject to market risks that are presented both in this subsection and in "Item 5. Operating and Financial Review and Prospects" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Risks Associated with Our Business

We are vulnerable to disruptions and volatility in the global financial markets.

In the recent past, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility (such as volatility in spreads) and, in some cases, lack of price transparency on interbank lending rates. Global economic conditions deteriorated significantly between 2007 and 2009, and many countries fell into recession. Although most countries have begun to recover, this recovery may not be sustainable. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies experienced, and some continue to experience, significant difficulties. Around the world, there have also been runs on deposits at several financial institutions, numerous institutions have sought additional capital or have been assisted by governments, and many lenders and institutional investors have reduced or ceased providing funding to borrowers (including to other financial institutions).

Increased disruption and volatility in the global financial markets could have a material adverse effect on us, including our ability to access capital and liquidity on financial terms acceptable to us, if at all. If capital markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits to attract more customers and become unable to maintain certain liability maturities. Any such increase in capital markets funding availability or costs or in deposit rates could have a material adverse effect on our interest margins and liquidity.

In particular, we may face, among others, the following economic risks:

- Increased regulation of our industry. Compliance with such regulation will increase our costs and may affect the pricing for our products and services and limit our ability to pursue business opportunities.
- Reduced demand for our products and services.
- Inability of our borrowers to timely or fully comply with their existing obligations.
- The process we use to estimate losses inherent in our credit exposure requires complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The degree of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates, which may, in turn, impact the reliability of the process and the sufficiency of our loan loss allowances.
- The value and liquidity of the portfolio of investment securities that we hold may be adversely affected.
- Any worsening of global economic conditions may delay the recovery of the international financial industry and impact our financial condition and results of operations.
- The recoverability of our retail loans in particular may be increasingly vulnerable to macroeconomic shocks that could negatively impact the household income of our retail customers and result in increased loan losses.

Despite recent improvements in certain segments of the global economy, uncertainty remains concerning the future economic environment. There can be no assurance that economic conditions in these segments will continue to improve or that the global economic condition as a whole will improve significantly. Such economic uncertainty could have a negative impact on our business and results of operations. Investors remain cautious. A slowing or failing of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry.

If all or some of the foregoing risks were to materialize, this could have a material adverse effect on us.

Credit, market and liquidity risk may have an adverse effect on our credit ratings and our cost of funds. Any downgrading in Chile’s, our controlling shareholders or our credit rating would likely increase our cost of funding, require us to post additional collateral or take other actions under some of our derivative contracts and adversely affect our interest margins and results of operations.

Credit ratings affect the cost and other terms upon which we are able to obtain funding. Rating agencies regularly evaluate us, and their ratings of our long-term debt are based on a number of factors, including our financial strength, conditions that affect the financial services industry generally and the economic environment in which the company operates. In addition, due to the methodology of the main rating agencies, our credit rating is affected by the rating of Chile’s sovereign debt. If Chile’s sovereign debt is downgraded, our credit rating would also likely be downgraded by an equivalent amount.

In addition, our ratings may be adversely affected by any downgrade in the ratings of our parent company, Santander Spain. The long-term debt of Santander Spain is currently rated investment grade by the major rating agencies—A3 by Moody’s Investors Service España, S.A., (“Moody’s”) A- by Standard & Poor’s Ratings Services (“S&P”) and A- by Fitch Ratings Ltd. (“Fitch”)—all of which have a stable outlook due to the gradual economic improvement in Spain.

Any downgrade in our debt credit ratings would likely increase our borrowing costs and require us to post additional collateral or take other actions under some of our derivative contracts, and could limit our access to capital markets and adversely affect our commercial business. For example, a ratings downgrade could adversely affect our ability to sell or market certain of our products, engage in certain longer-term and derivatives transactions and retain our customers, particularly customers who need a minimum rating threshold in order to invest. In addition, under the terms of certain of our derivative contracts, we may be required to maintain a minimum credit rating or terminate such contracts. Any of these results of a ratings downgrade, in turn, could reduce our liquidity and have an adverse effect on us, including our operating results and financial condition.

While certain potential impacts of these downgrades are contractual and quantifiable, the full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of a firm's long-term credit rating precipitates downgrades to its short-term credit rating, and assumptions about the potential behaviors of various customers, investors and counterparties. Actual outflows could be higher or lower than this hypothetical example, depending upon certain factors including which credit rating agency downgrades our credit rating, any management or restructuring actions that could be taken to reduce cash outflows and the potential liquidity impact from loss of unsecured funding (such as from money market funds) or loss of secured funding capacity. Although, unsecured and secured funding stresses are included in our stress testing scenarios and a portion of our total liquid assets is held against these risks, it is still the case that a credit rating downgrade could have a material adverse effect on us.

In addition, if we were required to cancel our derivatives contracts with certain counterparties and were unable to replace such contracts, our market risk profile could be altered.

In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that the rating agencies will maintain the current ratings or outlooks. Failure to maintain favorable ratings and outlooks would likely increase the cost of funding to us and adversely affect interest margins, which could have a material adverse effect on us.

Increased competition and industry consolidation may adversely affect our results of operations.

The Chilean market for financial services is highly competitive. We compete with other private sector Chilean and non-Chilean banks, with Banco del Estado de Chile, the principal government-owned sector bank, with department stores and with larger supermarket chains that make consumer loans and sell other financial products to a large portion of the Chilean population. The lower to middle-income segments of the Chilean population and the small- and mid-sized corporate segments have become the target markets of several banks and competition in these segments may increase. We also face competition from non-bank (such as department stores, insurance companies, *cajas de compensación* and *cooperativas*) and non-finance competitors (principally department stores and larger supermarket chains) with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non-bank finance competitors, such as leasing, factoring and automobile finance

companies, with respect to credit products, and from mutual funds, pension funds and insurance companies with respect to savings products. Increasing competition could require that we increase our rates offered on deposits or lower the rates we charge on loans, which could also have a material adverse effect on us, including our profitability. It may also negatively affect our business results and prospects by, among other things, limiting our ability to increase our customer base and expand our operations and increasing competition for investment opportunities.

Non-traditional providers of banking services, such as Internet based e-commerce providers, mobile telephone companies and internet search engines may offer and/or increase their offerings of financial products and services directly to customers. These non-traditional providers of banking services currently have an advantage over traditional providers because they are not subject to banking regulation. Several of these competitors may have long operating histories, large customer bases, strong brand recognition and significant financial, marketing and other resources. They may adopt more aggressive pricing and rates and devote more resources to technology, infrastructure and marketing. New competitors may enter the market or existing competitors may adjust their services with unique product or service offerings or approaches to providing banking services. If we are unable to successfully compete with current and new competitors, or if we are unable to anticipate and adapt our offerings to changing banking industry trends, including technological changes, our business may be adversely affected. In addition, our failure to effectively anticipate or adapt to emerging technologies or changes in customer behavior,

including among younger customers, could delay or prevent our access to new digital-based markets which would in turn have an adverse effect on our competitive position and business.

The increase in competition within the Chilean banking industry in recent years has led to consolidation in the industry. We expect the trends of increased competition and consolidation to continue and to result in the formation of large new financial groups with which we must now compete. There can be no assurance that this increased competition will not adversely affect our growth prospects, and therefore our operations.

In addition, if our customer service levels were perceived by the market to be materially below those of our competitor financial institutions, we could lose existing and potential business. If we are not successful in retaining and strengthening customer relationships, we may lose market share, incur losses on some or all of our activities or fail to attract new deposits or retain existing deposits, which could have a material adverse effect on our operating results, financial condition and prospects.

Our ability to maintain our competitive position depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties, and we may not be able to manage various risks we face as we expand our range of products and services that could have a material adverse effect on us.

The success of our operations and our profitability depends, in part, on the success of new products and services we offer our clients and our ability to continue offering products and services from third parties. However, we cannot guarantee that our new products and services will be responsive to client demands or successful once they are offered to our clients, or that they will be successful in the future. In addition, our clients' needs or desires may change over time, and such changes may render our products and services obsolete, outdated or unattractive and we may not be able to develop new products that meet our clients' changing needs. Our success is also dependent on our ability to anticipate and leverage new and existing technologies that may have an impact on products and services in the banking industry. Technological changes may further intensify and complicate the competitive landscape and influence client behavior. If our products and services employ technology that is not as attractive to our clients as that employed by our competitors, if we fail to employ technologies desired by our clients before our competitors do so, or if we fail to execute effectively on targeted strategic technology initiatives, our business and results could be adversely affected. In addition, if we cannot respond in a timely fashion to the changing needs of our clients, we may lose clients, which could in turn materially and adversely affect us.

As we expand the range of our products and services, some of which may be at an early stage of development in the markets of certain regions where we operate, we will be exposed to new and potentially increasingly complex risks and development expenses in those markets, with respect to which our experience and the experience of our partners may not be sufficient. Our employees and our risk management systems may not be adequate to handle or manage such risks. In addition, the cost of developing products that are not launched is likely to affect our results of operations. Any or all of these factors, individually or collectively, could have a material adverse effect on us.

Our strong position in the credit card market is in part due to our credit card co-branding agreement with Chile's largest airline. This agreement expires in August 2020 and no assurance can be given that it will be renewed, which may materially and adversely affect our results of operations and financial condition in the credit card business.

Further, our customers may issue complaints and seek redress if they consider that they have suffered loss from our products and services, for example, as a result of any alleged mis-selling or incorrect application of the terms and conditions of a particular product. This could in turn subject us to risks of potential legal action by our customers and intervention by our regulators. For further detail on our legal and regulatory risk exposures, please see the risk factor entitled "We are exposed to risk of loss from legal and regulatory proceedings."

The financial problems faced by our customers could adversely affect us.

Market turmoil and economic recession could materially and adversely affect the liquidity, credit ratings, businesses and/or financial conditions of our borrowers, which could in turn increase our own non-performing loan ratios, impair our loan and other financial assets and result in decreased demand for borrowings in general. In addition, our customers may further significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds, which would adversely affect our fee and commission income. We may also be adversely affected by the negative effects of the heightened regulatory environment on our customers due to the high

costs associated with regulatory compliance and proceedings. Any of the conditions described above could have a material adverse effect on our business, financial condition and results of operations.

We may generate lower revenues from fee and commission based businesses.

The fees and commissions that we earn from the different banking and other financial services that we provide represent a significant source of our revenues. Our customers may significantly decrease their risk tolerance to non-deposit investments such as stocks, bonds and mutual funds for a number of reasons, including a market downturn, which would adversely affect us, including our fee and commission income.

Banco Santander Chile sold its asset management business in 2013 and signed a management service agreement for a 10 year-period with the acquirer of this business in which we sell asset management funds on their behalf. Therefore, even in the absence of a market downturn, below-market performance by the mutual funds of the firm we broker for may result in a reduction in revenue we receive from selling asset management funds and adversely affect our results of operations.

Market conditions have resulted, and could result, in material changes to the estimated fair values of our financial assets. Negative fair value adjustments could have a material adverse effect on our operating results, financial condition and prospects.

In the recent past, financial markets have been subject to significant stress resulting in steep falls in perceived or actual financial asset values, particularly due to volatility in global financial markets and the resulting widening of credit spreads. We have material exposures to securities and other investments that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Asset valuations in future periods, reflecting then-prevailing market conditions, may result in negative changes in the fair values of our financial assets and these may also translate into increased impairments. In addition, the value ultimately realized by us on disposal may be lower than the current fair value. Any of these factors could require us to record negative fair value adjustments, which may have a material adverse effect on our operating results, financial condition or prospects.

In addition, to the extent that fair values are determined using financial valuation models, such values may be inaccurate or subject to change, as the data used by such models may not be available or may become unavailable due to changes in market conditions, particularly for illiquid assets, and particularly in times of economic instability. In such circumstances, our valuation methodologies require us to make assumptions, judgments and estimates in order to establish fair value, and reliable assumptions are difficult to make and are inherently uncertain and valuation models are complex, making them inherently imperfect predictors of actual results. Any consequential impairments or write-downs could have a material adverse effect on our operating results, financial condition and prospects.

If we are unable to effectively control the level of non-performing or poor credit quality loans in the future, or if our loan loss reserves are insufficient to cover future loan losses, this could have a material adverse effect on us.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of our businesses. Non-performing or low credit quality loans have in the past and can continue to negatively impact our results of operations. We cannot assure you that we will be able to effectively control the level of the impaired loans in our total loan portfolio. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our total loan portfolio, including as a result of loan portfolios that we may acquire in the future, or factors beyond our control, such as adverse changes in the credit quality of our borrowers and counterparties or a general deterioration in economic conditions in Chile or global economic conditions, impact of political events, events affecting certain industries or events affecting financial markets and global economies.

As of December 31, 2015, our non-performing loans were Ch$643,468 million, and the ratio of our non-performing loans to total loans was 2.5%. As of December 31, 2015, our allowance for loan losses was Ch$762,301 million, and the ratio of our allowance for loan losses to total loans was 3.0%. For additional information on our asset quality, see "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information–Classification of Loan Portfolio Based on the Borrower's Payment Performance."

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Our current allowance for loan losses may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our total loan portfolio. Our allowance for loan losses is based on our current assessment of and expectations concerning various factors affecting us, including the quality of our loan portfolio. These factors include, among other things, our borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Chile's economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond our control. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for loan losses and other assets require recalibration, which can lead to increased provision expense. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results–Results of Operations for the Years ended December 31, 2015, 2014 and 2013—Provision for loan losses, net of recoveries."

As a result, there is no precise method for predicting loan and credit losses, and we cannot assure you that our allowance for loan losses will be sufficient in the future to cover actual loan and credit losses. If our assessment of and expectations concerning the above-mentioned factors differ from actual developments, if the quality of our total loan portfolio deteriorates, for any reason, including the increase in lending to individuals and small and medium enterprises, the volume increase in the consumer loan portfolio and the introduction of new products, or if the future actual losses exceed our estimates of incurred losses, we may be required to increase our provisions and allowance for loan losses, which may adversely affect us. If we are unable to control or reduce the level of our non-performing or poor credit quality loans, this could have a material adverse effect on us.

The value of the collateral securing our loans may not be sufficient, and we may be unable to realize the full value of the collateral securing our loan portfolio.

The value of the collateral securing our loan portfolio may significantly fluctuate or decline due to factors beyond our control, including macroeconomic factors affecting Chile's economy. The value of the collateral securing our loan portfolio may be adversely affected by force majeure events, such as natural disasters, particularly in locations where a significant portion of our loan portfolio is composed of real estate loans. Natural disasters such as earthquakes and floods may cause widespread damage, which could impair the asset quality of our loan portfolio and could have an adverse impact on Chile's economy. The real estate market is particularly vulnerable in the current economic climate and this may affect us, as real estate represents a significant portion of the collateral securing our residential mortgage loan portfolio. We may also not have sufficiently recent information on the value of collateral, which may result in an inaccurate assessment for impairment losses of our loans secured by such collateral. If this were to occur, we may need to make additional provisions to cover actual impairment losses of our loans, which may materially and adversely affect our results of operations and financial condition.

The growth of our loan portfolio may expose us to increased loan losses. Our exposure to individuals and small and mid-sized businesses could lead to higher levels of past due loans, allowances for loan losses and charge-offs.

The further expansion of our loan portfolio (particularly in the consumer, small- and mid-sized companies and real estate segments) can be expected to expose us to a higher level of loan losses and require us to establish higher levels of provisions for loan losses. See "Note 8—Interbank Loans" and "Note 9—Loans and Accounts Receivables from Customers" in our Audited Consolidated Financial Statements for a description and presentation of our loan portfolio as well as "Item 5-Selected Statistical Information—Loan Portfolio."

Retail customers represent 66.36% of the value of the total loan portfolio as of December 31, 2015. As part of our business strategy, we seek to increase lending and other services to retail clients, which are more likely to be adversely affected by downturns in the Chilean economy. In addition, as of December 31, 2015, our residential mortgage loan portfolio totaled Ch$7,812,850 million, representing 30.9% of our total loans. See "Note 9—Loans and Accounts Receivables from Customers" in our Audited Consolidated Financial Statements for a description and presentation of our residential mortgage loan portfolio. If the economy and real estate market in Chile experience a significant downturn, this could materially adversely affect the liquidity, businesses and financial conditions of our customers, which may in turn cause us to experience higher levels of past-due loans, thereby resulting in higher provisions for loan losses and subsequent charge-offs. This may materially and adversely affect our asset quality, results of operations and financial condition.

Our loan portfolio may not continue to grow at the same rate and economic turmoil may lead to a contraction in our loan portfolio.

There can be no assurance that our loan portfolio will continue to grow at similar rates to the historical growth rate described above. A reversal of the rate of growth of the Chilean economy, a slowdown in the growth of customer demand, an increase in market competition or changes in governmental regulations could adversely affect the rate of growth of our loan portfolio and our risk index and, accordingly, increase our required allowances for loan losses. An economic turmoil could materially adversely affect the liquidity, businesses and financial condition of our customers as well as lead to a general decline in consumer spending and a rise in unemployment. All this could in turn lead to decreased demand for borrowings in general.

Our financial results are constantly exposed to market risk. We are subject to fluctuations in interest rates and other market risks, which may materially and adversely affect us.

Market risk refers to the probability of variations in our net interest income or in the market value of our assets and liabilities due to volatility of interest rate, inflation, exchange rate or equity price. Changes in interest rates affect the following areas, among others, of our business:

- net interest income;
- the volume of loans originated;
- volatility of credit spreads;
- the market value of our securities holdings;
- gains from sales of loans and securities; and
- gains and losses from derivatives.

Variations in interest rates could affect our net interest income, which comprises the majority of our revenue. Interest rate variations could adversely affect us, including our net interest income, reducing our growth rate or even resulting in losses. When interest rates rise, we may be required to pay higher interest on our floating-rate borrowings while interest earned on our predominately fixed-rate assets may not rise as quickly, which could cause profits to grow at a reduced rate or decline in some parts of our portfolio. Interest rates are highly sensitive to many factors beyond our control, including increased regulation of the financial sector, the reserve policies of the Central Bank, deregulation of

the financial sector in Chile, monetary policies, domestic and international economic and political conditions and other factors.

Increases in interest rates may reduce the volume of loans we originate. Sustained high interest rates have historically discouraged customers from borrowing and have resulted in increased delinquencies in outstanding loans and deterioration in the quality of assets. Increases in interest rates may also reduce the propensity of our customers to prepay or refinance fixed-rate loans. Increases in interest rates may reduce the value of our financial assets and may reduce gains or require us to record losses on sales of our loans or securities.

If interest rates decrease, although this is likely to decrease our funding costs, it is likely to adversely impact the income we receive from our investments in securities as well as loans with similar maturities. In addition, we may also experience increased delinquencies in a low interest rate environment when such an environment is accompanied by high unemployment and recessionary conditions.

The market value of a security with a fixed interest rate generally decreases when the prevailing interest rates rise, which may have an adverse effect on our earnings and financial condition. In addition, we may incur costs (which, in turn, will impact our results) as we implement strategies to reduce future interest rate exposure. The market value of an obligation with a floating interest rate can be adversely affected when interest rates increase, due to a lag in the implementation of repricing terms or an inability to refinance at lower rates.

We are also exposed to foreign exchange rate risk as a result of mismatches between assets and liabilities denominated in different currencies. Fluctuations in the exchange rate between currencies may negatively affect our earnings and value of our assets and securities. Therefore, while the Bank seeks to avoid significant mismatches between assets and liabilities due to foreign currency exposure, from time to time, we may have mismatches. "See Item 11. Quantitative and Qualitative Disclosure About Market Risks— E. Market Risks—Foreign exchange fluctuations."

We are also exposed to equity price risk in our investments in equity securities in the banking book and in the trading portfolio. The performance of financial markets may cause changes in the value of our investment and trading portfolios. The volatility of world equity markets due to the continued economic uncertainty and sovereign debt crisis has had a particularly strong impact on the financial sector. Continued volatility may affect the value of our investments in equity securities and, depending on their fair value and future recovery expectations, could become a permanent impairment which would be subject to write-offs against our results. To the extent any of these risks materialize, our net interest income or the market value of our assets and liabilities could be materially adversely affected.

Failure to successfully implement and continue to improve our risk management policies, procedures and methods, including our credit risk management system, could materially and adversely affect us, and we may be exposed to unidentified or unanticipated risks.

The management of risk is an integral part of our activities. We seek to monitor and manage our risk exposure through a variety of separate but complementary financial, credit, market, operational, compliance and legal reporting systems. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, such techniques and strategies may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk, including risks that we fail to identify or anticipate.

Some of our qualitative tools and metrics for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to arrive at quantifications of our risk exposures. These qualitative tools and metrics may fail to predict future risk exposures. These risk exposures could, for example, arise from factors we did not anticipate or correctly evaluate in our statistical models. This would limit our ability to manage our risks. Our losses thus could be significantly greater than the historical measures indicate. In addition, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses. We could face adverse consequences as a result of decisions, which may lead to actions by management, based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood or the use of such information for purposes for which it was not designed. In addition, if existing or potential customers or counterparties believe our risk management is inadequate, they could take their business elsewhere or seek to limit their transactions with us. This could harm our reputation as well as our operating results, financial condition and prospects.

As a commercial bank, one of the main types of risks inherent in our business is credit risk. For example, an important feature of our credit risk management system is to employ an internal credit rating system to assess the particular risk

profile of a customer. As this process involves detailed analyses of the customer, taking into account both quantitative and qualitative factors, it is subject to human or IT systems errors. In exercising their judgment on current or future credit risk behavior of our customers, our employees may not always be able to assign an accurate credit rating, which may result in our exposure to higher credit risks than indicated by our risk rating system.

In addition, we continue to refine our credit policies and guidelines to address potential risks associated with particular industries or types of customers. However, we may not be able to timely detect all possible risks before they occur, or due to limited tools available to us, our employees may not be able to effectively implement them, which may increase our credit risk. Failure to effectively implement, consistently follow or continuously refine our credit risk management system may result in an increase in the level of non-performing loans and a higher risk exposure for us, which could have a material adverse effect on us.

The effectiveness of our credit risk management is affected by the quality and scope of information available in Chile.

In assessing customers' creditworthiness, we rely largely on the credit information available from our own internal databases, the SBIF, Dicom en Capital, a Chilean nationwide credit bureau, and other sources. Due to limitations in the availability of information and the developing information infrastructure in Chile, our assessment of credit risk associated with a particular customer may not be based on complete, accurate or reliable information. In addition, although we have been improving our credit scoring systems to better assess borrowers' credit risk profiles, we cannot assure you that our credit scoring systems will collect complete or accurate information reflecting the actual behavior of customers or that their credit risk can be assessed correctly. Without complete, accurate and reliable information, we will have to rely on other publicly available resources and our internal resources, which may not be effective. As a result, our ability to effectively manage our credit risk and subsequently our loan loss allowances may be materially adversely affected.

Liquidity and funding risks are inherent in our business and could have a material adverse effect on us.

Liquidity risk is the risk that we either do not have available sufficient financial resources to meet our obligations as they fall due or can secure them only at excessive cost. This risk is inherent in any retail and commercial banking business and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding, changes in credit ratings or market-wide phenomena such as market dislocation. While we implement liquidity management processes to seek to mitigate and control these risks, unforeseen systemic market factors in particular make it difficult to eliminate completely these risks. Adverse and continued constraints in the supply of liquidity, including inter-bank lending, has affected and may materially and adversely affect the cost of funding our business, and extreme liquidity constraints may affect our current operations and our ability to fulfill regulatory liquidity requirements as well as limit growth possibilities.

Disruption and volatility in the global financial markets could have a material adverse effect on our ability to access capital and liquidity on financial terms acceptable to us.

Our cost of obtaining funding is directly related to prevailing market interest rates and to our credit spreads. Increases in interest rates and our credit spreads can significantly increase the cost of our funding. Changes in our credit spreads are market-driven, and may be influenced by market perceptions of our creditworthiness. Changes to interest rates and our credit spreads occur continuously and may be unpredictable and highly volatile.

If wholesale markets financing ceases to become available, or becomes excessively expensive, we may be forced to raise the rates we pay on deposits, with a view to attracting more customers, and/or to sell assets, potentially at depressed prices. The persistence or worsening of these adverse market conditions or an increase in base interest rates could have a material adverse effect on our ability to access liquidity and cost of funding.

We rely, and will continue to rely, primarily on commercial deposits to fund lending activities. The ongoing availability of this type of funding is sensitive to a variety of factors outside our control, such as general economic conditions and the confidence of commercial depositors in the economy, in general, and the financial services industry in particular, and the availability and extent of deposit guarantees, as well as competition between banks for deposits. Any of these factors could significantly increase the amount of commercial deposit withdrawals in a short period of time, thereby reducing our ability to access commercial deposit funding on appropriate terms, or at all, in the future. If these circumstances were to arise, this could have a material adverse effect on our operating results, financial condition and prospects.

We anticipate that our customers will continue, in the near future, to make short-term deposits (particularly demand deposits and short-term time deposits), and we intend to maintain our emphasis on the use of banking deposits as a source of funds. As of December 31, 2015, 98.5% of our customer deposits had remaining maturities of one year or less, or were payable on demand. A significant portion of our assets have longer maturities, resulting in a mismatch between the maturities of liabilities and the maturities of assets. Historically, one of our principal sources of funds has been time deposits. Time deposits represented 35.2% and 33.6% of our total liabilities and equity as of December 31, 2015 and 2014, respectively. The Chilean time deposit market is concentrated given the importance in size of various large institutional investors such as pension funds and corporations relative to the total size of the economy. As of December 31, 2015, the Bank’s top 20 time deposits represented 39.6% of total time deposits, or 9.8% of total liabilities and equity, and totaled U.S.$6.8 billion. No assurance can be given that future economic

stability in the Chilean market will not negatively affect our ability to continue funding our business or to maintain our current levels of funding without incurring increased funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If this were to happen, we could be materially adversely affected.

The short-term nature of this funding source could cause liquidity problems for us in the future if deposits are not made in the volumes we expect or are not renewed. If a substantial number of our depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, we may be materially and adversely affected.

We are subject to regulatory capital and liquidity requirements that could limit our operations, and changes to these requirements may further limit and adversely affect our operating results, financial condition and prospects.

Chilean banks are required by the General Banking Law to maintain regulatory capital of at least 8% of risk-weighted assets, net of required loan loss allowance and deductions, and paid-in capital and reserves (“basic capital”) of at least 3% of total assets, net of required loan loss allowances. As we are the result of the merger between two predecessors with a relevant market share in the Chilean market, we are currently required to maintain a minimum regulatory capital to risk-weighted assets ratio of 11%. As of December 31, 2015, the ratio of our regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, was 13.4%. Certain developments could affect our ability to continue to satisfy the current capital adequacy requirements applicable to us, including:

- the increase of risk-weighted assets as a result of the expansion of our business or regulatory changes;
- the failure to increase our capital correspondingly;
- losses resulting from a deterioration in our asset quality;
- declines in the value of our investment instrument portfolio;
- changes in accounting standards;
- changes in provisioning guidelines that are charged directly against our equity or net income; and
- changes in the guidelines regarding the calculation of the capital adequacy ratios of banks in Chile.

Chilean banks are gradually being required to adopt the guidelines set forth under the Basel III Capital Accord with adjustments incorporated by the SBIF once these changes are approved by the Chilean Congress in 2015 or 2016.

Following this approval, Chilean banks will most likely have to fully comply with Basel III requirements by 2018 or 2019. This could result in a different level of minimum capital required to be maintained by us. According to initial estimates of the impact of market risk on regulatory capital, published by the SBIF for informational purposes only, our ratio of regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, including an initial estimate of the adjustments for market risk was 12.0% as of December 31, 2015. No assurance can be given that the adoption of the Basel III capital requirements will not have a material impact on our capitalization ratio.

We may also be required to raise additional capital in the future in order to maintain our capital adequacy ratios above the minimum required levels. Our ability to raise additional capital may be limited by numerous factors, including: our future financial condition, results of operations and cash flows; any necessary government regulatory approvals; our credit ratings; general market conditions for capital raising activities by commercial banks and other financial institutions; and domestic and international economic, political and other conditions. If we require additional capital in the future, we cannot assure you that we will be able to obtain such capital on favorable terms, in a timely manner or at all. Furthermore, the SBIF may increase the minimum capital adequacy requirements applicable to us. Accordingly, although we currently meet the applicable capital adequacy requirements, we may face difficulties in meeting these requirements in the future. If we fail to meet the capital adequacy requirements, we may be required to take corrective actions. These measures could materially and adversely affect our business reputation, financial condition and results of operations. In addition, if we are unable to raise sufficient capital in a timely manner, the growth of our loan portfolio and other risk-weighted assets may be restricted, and we may face significant challenges in implementing our business strategy. As a result, our prospects, results of operations and financial condition could be materially and adversely affected.

The SBIF and the Central Bank published new liquidity standards in 2015 and ratios that must be implemented and calculated by all banks. These will eventually replace the current regulatory limits imposed by the SBIF and the Central Bank described above. These new liquidity standards are in line with those established in Basel III. The most important liquidity ratios that will eventually be adopted by Chilean banks are:

- Liability concentration per institutional and wholesale counterparty. Banks will have to calculate the percentage of their liabilities coming from institutional and wholesale counterparties, including ratios regarding renovation, renewals, restructurings, maturity and product concentration of these counterparties.

- Liquidity coverage ratio (LCR), which measures the percentage of liquid Assets over net cash outflows. The new guidelines also define liquid assets and the formulas for calculating net cash outflows.

- Net Stable Funding Ratio (NSFR) which will measure a bank's available stable funding relative to its required stable funding. Both concepts are also defined in the new regulations.

Beginning on March 30, 2016, banks must report these ratios to the Central Bank and the SBIF. The evolution of these indicators will be monitored for a 12 month period and adjustments to the required ratios could be made. The final limits and results should begin to be published in the second half of 2016. The initial limits banks must meet in order to comply with these new ratios have not been published yet. For this reason, we cannot yet determine the effect that the implementation of these models will have on our business. Such effect could be material and adverse if it materially increases the liquidity we are required to maintain.

We are subject to regulatory risk, or the risk of not being able to meet all of the applicable regulatory requirements and guidelines.

As a financial institution, we are subject to extensive regulation, inspections, examinations, inquiries, audits and other regulatory requirements by Chilean regulatory authorities, which materially affect our businesses. We cannot assure you that we will be able to meet all of the applicable regulatory requirements and guidelines, or that we will not be subject to sanctions, fines, restrictions on our business or other penalties in the future as a result of noncompliance. If sanctions, fines, restrictions on our business or other penalties are imposed on us for failure to comply with applicable requirements, guidelines or regulations, our business, financial condition, results of operations and our reputation and ability to engage in business may be materially and adversely affected.

Changes in regulations may also cause us to face increased compliance costs and limitations on our ability to pursue certain business opportunities and provide certain products and services. As some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in which we operate, it may face higher compliance costs. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a

material adverse effect on our business and results of operations.

Modifications to reserve requirements may affect our business.

Deposits are subject to a reserve requirement of 9.0% for demand deposits and 3.6% for time deposits (with terms of less than one year). The Central Bank has statutory authority to require banks to maintain reserves of up to an average of 40.0% for demand deposits and up to 20.0% for time deposits (irrespective, in each case, of the currency in which these deposits are denominated) to implement monetary policy. In addition, to the extent that the aggregate amount of the following types of liabilities exceeds 2.5 times the amount of a bank's regulatory capital, a bank must maintain a 100% "technical reserve" against them: demand deposits, deposits in checking accounts, obligations payable on sight incurred in the ordinary course of business and, in general, all deposits unconditionally payable immediately. If the Central Bank were to increase reserve requirements, this could lead to lower loan growth and have a negative effect on our business.

Our business could be affected if its capital is not managed effectively or if changes limiting our ability to manage our capital position are adopted.

Effective management of our capital position is important to our ability to operate our business, to continue to grow organically and to pursue our business strategy. However, in response to the global financial crisis, a number of changes to the regulatory capital framework have been adopted or continue to be considered. As these and other changes are implemented or future changes are considered or adopted that limit our ability to manage our balance sheet and capital resources effectively or to access funding on commercially acceptable terms, we may experience a material adverse effect on our financial condition and regulatory capital position.

The legal restrictions on the exposure of Chilean pension funds to different asset classes may affect our access to funding.

Chilean regulations impose a series of restrictions on how Chilean pension fund management companies (*Administradora de Fondos de Pensión*, or "AFPs") may allocate their assets. In the particular case of financial issuers' there are three restrictions, each involving different assets and different limits determined by the amount of assets in each fund and the market and book value of the issuer's equity. As a consequence, limits vary within funds of AFPs and issuers. As of December 31, 2015, the AFP system had US$3,630 million invested in the Bank via equity, deposits and fixed income. According to the latest information published in December 2015, the AFPs still had the possibility of being able to invest another US$11,066 million in the Bank. If the exposure of any AFP to Santander-Chile exceeds the regulatory limits, we would need to seek alternative sources of funding, which could be more expensive and, as a consequence, may have a material adverse effect on our financial condition and results of operations.

Our financial statements are based in part on assumptions and estimates which, if inaccurate, could cause material misstatement of the results of our operations and financial position.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgments and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to our results and financial position, based upon materiality and significant judgments and estimates, include impairment of loans and advances, goodwill impairment, valuation of financial instruments, impairment of available-for-sale financial assets, deferred tax assets and provision for liabilities.

The valuation of financial instruments measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Given the uncertainty and subjectivity associated with valuing such instruments it is possible that the results of our operations and financial position could be materially misstated if the estimates and assumptions used prove to be inaccurate.

If the judgment, estimates and assumptions we use in preparing our consolidated financial statements are subsequently found to be incorrect, there could be a material effect on our results of operations and a corresponding effect on our funding requirements and capital ratios.

Changes in accounting standards could impact reported earnings.

The accounting standard setters and other regulatory bodies periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

The preparation of our tax returns requires the use of estimates and interpretations of complex tax laws and regulations and is subject to review by taxing authorities.

We are subject to the income tax laws of Chile and certain foreign countries. These tax laws are complex and subject to different interpretations by the taxpayer and relevant governmental taxing authorities, which are sometimes subject to prolonged evaluation periods until a final resolution is reached. In establishing a provision for income tax expense and filing returns, we must make judgments and interpretations about the application of these inherently complex tax laws.

If the judgment, estimates and assumptions we use in preparing our tax returns are subsequently found to be incorrect, there could be a material adverse effect on our results of operations.

Disclosure controls and procedures over financial reporting may not prevent or detect all errors or acts of fraud.

Disclosure controls and procedures over financial reporting are designed to provide reasonably assurance that information required to be disclosed by the company in reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Any disclosure controls and procedures over financial reporting or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These disclosure controls and procedures have inherent limitations, which include the possibility that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by any unauthorized override of the controls. Consequently, our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct and the precautions we take to prevent and detect this activity may not always be effective. Accordingly, because of the inherent limitations in the control system, misstatements due to error or fraud may occur and not be detected.

We engage in transactions with related parties that we believe are on an arm's-length basis but others may use different criteria for determining that a transaction is at arm's-length.

We and our affiliates have entered into a number of services agreements pursuant to which we render services, such as administrative, accounting, finance, treasury, legal services and others.

Chilean law applicable to public companies and financial groups and institutions and our bylaws provide for several procedures designed to ensure that the transactions entered into with or among our financial subsidiaries and/or affiliates do not deviate from prevailing market conditions for those types of transactions, including the requirement that our board of directors approve such transactions. Furthermore, all significant related party transactions must be approved by the Audit Committee and the Board. These significant transactions are also reported in our annual shareholders meeting. Please see note 34 of our Audited Consolidated Financial Statements and "Item 7. Major Shareholders and Related Party Transactions."

We are likely to continue to engage in transactions with our affiliates. Future conflicts of interests between us and any of affiliates, or among our affiliates, may arise, which conflicts are not required to be and may not be resolved in our favor.

Operational risks, including risks relating to data collection, processing and storage systems and security are inherent in our business.

Like other financial institutions with a large customer base, we manage and hold confidential personal information of customers in the conduct of our banking operations, as well as a large number of assets. Accordingly, our businesses depend on the ability to process a large number of transactions efficiently and accurately, and on our ability to rely on our digital technologies, computer and email services, software and networks, as well as on the secure processing, storage and transmission of confidential and other information in our

computer systems and networks. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. Losses can result from inadequate personnel, inadequate or failed internal control processes and systems, or from external events that interrupt normal business operations. We also face the risk that the design of our controls and procedures prove to be inadequate or are circumvented. Although we work with our clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and prevent against information security risk and cyber-attacks, we routinely exchange personal, confidential and proprietary information by electronic means, and we may be the target of attempted cyber-attacks. If we cannot maintain an effective data collection, management and processing system, we may be materially and adversely affected.

We take protective measures and continuously monitor and develop our systems to protect our technology infrastructure and data from misappropriation or corruption, but our systems, software and networks nevertheless may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. An interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client, vendor, service provider, counterparty or third party could result in legal liability, regulatory action and reputational harm. There can be no assurance that we will not suffer material losses from operational risk in the future, including those relating to cyber-attacks or other such security breaches. Further, as cyber-attacks continue to evolve, we may incur significant costs in its attempt to modify or enhance our protective measures or investigate or remediate any vulnerability. Any material disruption or slowdown of our systems could cause information, including data related to customer requests, to be lost or to be delivered to our clients with delays or errors, which could reduce demand for our services and products and could materially and adversely affect us.

We have seen in recent years computer systems of companies and organizations being targeted, not only by cyber criminals, but also by activists and rogue states. We have been and continue to be subject to a range of cyber-attacks, such as denial of service, malware and phishing. Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could give rise to the disablement of our information technology systems used to service our customers. As attempted attacks continue to evolve in scope and sophistication, we may incur significant costs in our attempt to modify or enhance our protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach, or in communicating cyber-attacks to our customers. If we fail to effectively manage our cyber security risk, e.g. by failing to update our systems and processes in response to new threats, this could harm our reputation and adversely affect our operating results, financial condition and prospects through the payment of customer compensation, regulatory penalties and fines and/or through the loss of assets. In addition, we may also be subject to cyber-attacks against the critical infrastructure of Chile. Our information technology systems are dependent on such national critical infrastructure and any cyber-attack against such critical infrastructure could negatively affect our ability to service our customers. As we do not operate such national critical infrastructure, we have limited ability to protect our information technology systems from the adverse effects of such a cyber-attack.

We manage and hold confidential personal information of customers in the conduct of our banking operations. Although we have procedures and controls to safeguard personal information in our possession, unauthorized disclosures could subject us to legal actions and administrative sanctions as well as damages that could materially and adversely affect our results of operations, financial condition and prospects.

In addition, our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and detect this activity may not always be effective. In addition, we may be required to report events related to information security issues (including any cyber security issues), events where customer information may be compromised, unauthorized access and other security breaches, to the regulatory authorities.

Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on us.

Our ability to remain competitive depends in part on our ability to upgrade our information technology on a timely and cost-effective basis. We must continually make significant investments and improvements in our information technology infrastructure in order to remain competitive. We cannot assure you that in the future we will be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of our information technology infrastructure. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on us.

We rely on third parties for important products and services.

Third party vendors provide key components of our business infrastructure such as loan and deposit servicing systems, internet connections and network access. Third parties can be sources of operational risk to us, including with respect to security breaches affecting such parties. We are also subject to risk with respect to security breaches affecting the vendors and other parties that interact with our third party vendors. As our interconnectivity with these third parties increases, we increasingly face the risk of operational failure with respect to their systems. We may be required to take steps to protect the integrity of our operational systems, thereby increasing our operational costs and potentially decreasing customer satisfaction. Any problems caused by these third parties, including as a result of their not providing us their services for any reason, their performing their services poorly or employee misconduct, could adversely affect our ability to deliver products and services to customers and otherwise to conduct business. Replacing these third party vendors could also entail significant delays and expense.

Damage to our reputation could cause harm to our business prospects.

Maintaining a positive reputation is critical to our attracting and maintaining customers, investors and employees. Damage to our reputation can therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory outcomes, failure to deliver minimum standards of service and quality, compliance failures, unethical behavior, and the activities of customers and counterparties. Further, negative publicity regarding us, whether or not true, may result in harm to our prospects.

Actions by the financial services industry generally or by certain members of, or individuals in, the industry can also affect our reputation. For example, the role played by financial services firms in the financial crisis and the seeming shift toward increasing regulatory supervision and enforcement has caused public perception of us and others in the financial services industry to decline.

We could suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interest has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The failure to adequately address or the perceived failure to adequately address, conflicts of interest could affect the willingness of clients to deal with us, or give rise to litigation or enforcement actions against us. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to us.

We rely on recruiting, retaining and developing appropriate senior management and skilled personnel.

Our continued success depends in part on the continued service of key members of our management team. The ability to continue to attract, train, motivate and retain highly qualified professionals is a key element of our strategy. The successful implementation of our growth strategy depends on the availability of skilled management, both at our head office and at each of our business units. If we or one of our business units or other functions fails to staff its operations appropriately or loses one or more of its key senior executives and fails to replace them in a satisfactory and timely manner, our business, financial condition and results of operations, including control and operational risks, may be adversely affected.

In addition, the financial industry has and may continue to experience more stringent regulation of employee compensation, which could have an adverse effect on our ability to hire or retain the most qualified employees. If we fail or are unable to attract and appropriately train, motivate and retain qualified professionals, our business may also be adversely affected.

We may not be able to detect or prevent money laundering and other financial crime activities fully or on a timely basis, which could expose us to additional liability and could have a material adverse effect on us.

We are required to comply with applicable anti-money laundering (“AML”), anti-terrorism, sanctions and other laws and regulations in the jurisdictions in which we operate. These laws and regulations require us, among other things, to conduct full customer due diligence regarding sanctions and politically-exposed person screening, keep our customer, account and transaction information up to date and have implemented effective financial crime policies and procedures detailing what is required from those responsible. Our requirements also include AML training for our employees, reporting suspicious transactions and activity to appropriate law enforcement following full investigation by our AML team.

Financial crime has become the subject of enhanced regulatory scrutiny and supervision by regulators globally. AML sanctions, laws and regulations are increasingly complex and detailed and have become the subject of enhanced regulatory supervision, requiring improved systems, sophisticated monitoring and skilled compliance personnel.

We have developed policies and procedures aimed at detecting and preventing the use of our banking network for money laundering and other financial crime related activities. These require implementation and embedding within our business effective controls and monitoring, which in turn requires on-going changes to systems and operational activities. Financial crime is continually evolving and subject to increasingly stringent regulatory oversight and focus. This requires proactive and adaptable responses from us so that we are able to effectively deter threats and criminality. Even known threats can never be fully eliminated, and there will be instances where we may be used by other parties to engage in money laundering and other illegal or improper activities. In addition, we rely heavily on our employees to assist us by spotting such activities and reporting them, and our employees have varying degrees of experience in recognizing criminal tactics and understanding the level of sophistication of criminal organizations. Where we outsource any of our customer due diligence, customer screening or anti financial crime operations, we remain responsible and accountable for full compliance and any breaches. If we are unable to apply the necessary scrutiny and oversight, there remains a risk of regulatory breach.

If we are unable to fully comply with applicable laws, regulations and expectations, our regulators and relevant law enforcement agencies have the ability and authority to impose significant fines and other penalties on us, including requiring a complete review of our business systems, day-to-day supervision by external consultants and ultimately the revocation of our banking license.

The reputational damage to our business and global brand would be severe if we were found to have breached AML or sanctions requirements. Our reputation could also suffer if we are unable to protect our customers or our business from being used by criminals for illegal or improper purposes.

In addition, while we review our relevant counterparties' internal policies and procedures with respect to such matters, we, to a large degree, rely upon our relevant counterparties to maintain and properly apply their own appropriate anti-money laundering procedures. Such measures, procedures and compliance may not be completely effective in preventing third parties from using our (and our relevant counterparties') services as a conduit for money laundering (including illegal cash operations) without our (and our relevant counterparties') knowledge. If we are associated with, or even accused of being associated with, or become a party to, money laundering, then our reputation could suffer and/or we could become subject to fines, sanctions and/or legal enforcement (including being added to any "black lists" that would prohibit certain parties from engaging in transactions with us), any one of which could have a material adverse effect on our operating results, financial condition and prospects.

Any such risks could have a material adverse effect on our operating results, financial condition and prospects.

We are exposed to risk of loss from legal and regulatory proceedings.

We face risk of loss from legal and regulatory proceedings, including tax proceedings, that could subject us to monetary judgments, regulatory enforcement actions, fines and penalties. The current regulatory environment in the jurisdictions in which we operate reflects an increased supervisory focus on enforcement, combined with uncertainty about the evolution of the regulatory regime, and may lead to material operational and compliance costs.

We are from time to time subject to certain claims and party to certain legal proceedings incidental to the normal course of our business, including in connection with conflicts of interest, lending activities, relationships

with our employees and other commercial or tax matters. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in the early stages of discovery, we cannot state with confidence what the eventual outcome of these pending matters will be or what the eventual loss, fines or penalties related to each pending matter may be. We believe that we have made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings. See note 20 of our Audited Consolidated Financial Statements. However, the amount of these provisions is substantially less than the total amount of the claims asserted against us and in light of the uncertainties involved in such claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us. As a result, the outcome of a particular matter may be material to our operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and our level of income for that period.

We are subject to market, operational and other related risks associated with our derivative transactions that could have a material adverse effect on us.

We enter into derivative transactions for trading purposes as well as for hedging purposes. We are subject to market, credit and operational risks associated with these transactions, including basis risk (the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost) and credit or default risk (the risk of insolvency or other inability of the counterparty to a particular transaction to perform its obligations thereunder, including providing sufficient collateral).

Market practices and documentation for derivative transactions in Chile may differ from those in other countries. For example, documentation may not incorporate terms and conditions of derivatives transactions as commonly understood in other countries. In addition, the execution and performance of these transactions depend on our ability to maintain adequate control and administration systems and to hire and retain qualified personnel. Moreover, our ability to adequately monitor, analyze and report derivative transactions continues to depend, to a great extent, on our information technology systems. This factor further increases the risks associated with these transactions and could have a material adverse effect on us.

We are subject to counterparty risk in our banking business.

We are exposed to counterparty risk in addition to credit risks associated with lending activities. Counterparty risk may arise from, for example, investing in securities of third parties, entering into derivative contracts under which counterparties have obligations to make payments to us or executing securities, futures, currency or commodity trades from proprietary trading activities that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, clearing houses or other financial intermediaries.

We routinely transact with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, hedge funds and other institutional clients. Defaults by, and even rumors or questions about the solvency of, certain financial institutions and the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. Many of the routine transactions we enter into expose us to significant credit risk in the event of default by one of our significant counterparties.

Our loan and investment portfolios are subject to risk of prepayment, which could have a material adverse effect on us.

Our fixed rate loan and investment portfolios are subject to prepayment risk, which results from the ability of a borrower or issuer to pay a debt obligation prior to maturity. Generally, in a declining interest rate environment, prepayment activity increases, which reduces the weighted average lives of our earning assets and could have a material adverse effect on us. We would also be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Prepayment risk also has a significant adverse impact on credit card and collateralized mortgage loans, since prepayments could shorten the weighted average life of these assets, which may result in a mismatch in our funding obligations and reinvestment at lower yields. Prepayment risk is inherent to our commercial activity and an increase in prepayments could have a material adverse effect on us.

Current economic conditions may make it more difficult for us to continue funding our business on favorable terms with institutional investors.

Large-denominations of funding from time deposits from institutional investors may, under some circumstances, be a less stable source of funding than savings and bonds, such as during periods of significant changes in market interest rates for these types of deposit products and any resulting increased competition for such funds. As of December 31, 2015 short-term funding from institutional investors totaled US$ 3.0 billion or 6.1% of total liabilities and equity. The liquidity crisis triggered by the U.S. subprime market impacted global markets and affected sources of funding, including time deposits. Although our results of operations and financial position have not suffered a significant impact as a consequence of the recent credit market instability in the U.S., future market instability in the U.S. or in European markets, specifically the Spanish market, may negatively affect our ability to continue funding our business or maintain our current levels of funding without incurring higher funding costs or having to liquidate certain assets.

If we are unable to manage the growth of our operations, this could have an adverse impact on our profitability.

We allocate management and planning resources to develop strategic plans for organic growth, and to identify possible acquisitions and disposals and areas for restructuring our businesses. From time to time, we evaluate acquisition and partnership opportunities that we believe offer additional value to our shareholders and are consistent with our business strategy. However, we may not be able to identify suitable acquisition or partnership candidates, and our ability to benefit from any such acquisitions and partnerships will depend in part on our successful integration of those businesses. Any such integration entails significant risks such as unforeseen difficulties in integrating operations and systems and unexpected liabilities or contingencies relating to the acquired businesses, including legal claims. We can give no assurances that our expectations with regards to integration and synergies will materialize. We also cannot provide assurance that we will, in all cases, be able to manage our growth effectively or deliver our strategic growth objectives. Challenges that may result from our strategic growth decisions include our ability to:

· manage efficiently the operations and employees of expanding businesses;

· maintain or grow our existing customer base;

· assess the value, strengths and weaknesses of investment or acquisition candidates, including local regulation that can reduce or eliminate expected synergies;

· finance strategic investments or acquisitions;

· fully integrate strategic investments, or newly-established entities or acquisitions in line with its strategy;

- align our current information technology systems adequately with those of an enlarged group;
- apply our risk management policy effectively to an enlarged group; and
- manage a growing number of entities without over-committing management or losing key personnel.

Any failure to manage growth effectively, including relating to any or all of the above challenges associated with our growth plans, could have a material adverse effect on our operating results, financial condition and prospects.

In addition, any acquisition or venture could result in the loss of key employees and inconsistencies in standards, controls, procedures and policies.

Moreover, the success of the acquisition or venture will at least in part be subject to a number of political, economic and other factors that are beyond our control. Any of these factors, individually or collectively, could have a material adverse effect on us.

Risks Relating to Chile

Portions of our loan portfolio are subject to risks relating to force majeure events and any such event could materially adversely affect our operating results.

Chile lies on the Nazca tectonic plate, making it one of the world's most seismically active regions. Our financial and operating performance may be adversely affected by force majeure events, such as natural disasters, particularly in locations where a significant portion of our loan portfolio is composed of real estate loans. Natural disasters such as earthquakes and floods may cause widespread damage which could impair the asset quality of our loan portfolio and could have an adverse impact on the economy of the affected region.

Changes in taxes, including the corporate tax rate, in Chile may have an adverse effect on us and our clients.

The Chilean Government enacted in 2014 and again in 2015 a reform to the tax and other assessment regimes to which we are subject in order to finance greater expenditure in education. The most important changes approved were:

1. A corporation such as Banco Santander Chile with a majority of shareholders that are incorporated entities is obliged to adhere to the sistema integrado parcial (SIP or partially integrated tax system). The statutory tax rate will rise to 25.5% in 2016 and 27% in 2017 and onward, with personal taxes paid on a dividend basis, therefore retaining some benefits for shareholders of companies that reinvest profits.

2. The Taxable Profits Fund (FUT), a mechanism that gives shareholders tax exemptions on reinvested profits, will be eliminated in fiscal 2018.

3. Decree-Law 600, which gives foreign investors certain tax and other guarantees, will be replaced by a new law, yet to be designed.

4. The maximum personal income tax rate will be reduced from 40% to 35%, starting in 2018.

5. An increase in stamp tax from 0.45% to 0.8% in 2016.

6. Lowering of VAT exemption for construction of houses up to 2,000 UF to 225 UF per dwelling.

7. Charge VAT tax on real estate transactions beginning in 2016. VAT tax is 20% in Chile.

8. Extension of certain tax benefits and simplified accounting for companies with annual sales lower than 50,000 UF.

9. Withholding tax on dividends paid to ADR holders remains unchanged at 35% with the statutory corporate tax rate paid by the company still available as credit to the withholding tax.

We cannot predict at this time if these reforms will have a material impact on our business or clients or if further tax reforms will be implemented in the future. Banco Santander Chile’s effective corporate tax rate should rise in the future, which may have an adverse impact on our results of operations. Please see “Item 10-Additional information-E. Taxation” for more information regarding the impacts of this tax reform on ADR holders. This may have an adverse effect on the growth rate of mortgage loans and could slow down the rate of economic growth if tax receipts are not spent efficiently or for their intended purposes.

Our growth, asset quality and profitability may be adversely affected by macroeconomic and political conditions in Chile.

A substantial amount of our loans is to borrowers doing business in Chile. Chile’s economy has experienced significant volatility in recent decades, characterized, in some cases, by slow or regressive growth, declining investment and hyperinflation. This volatility resulted in fluctuations in the levels of deposits and in the relative economic strength of various segments of the economies to which we lend. The Chilean economy may not continue to grow at similar rates as in the past or future developments may negatively affect Chile’s overall levels of economic activity.

Negative and fluctuating economic conditions, such as slowing or negative growth and a changing interest rate and inflationary environment, impact our profitability by causing lending margins to decrease and credit quality to decline and leading to decreased demand for higher margin products and services. Negative and fluctuating economic conditions in Chile could also result in government defaults on public debt. This could affect us in two ways: directly, through portfolio losses, and indirectly, through instabilities that a default in public debt could cause to the banking system as a whole, particularly since commercial banks' exposure to government debt is high in Chile.

In addition, our revenues are subject to risk of loss from unfavorable political and diplomatic developments, social instability, and changes in governmental policies, including expropriation, nationalization, international ownership legislation, interest-rate caps and tax policies.

No assurance can be given that our growth, asset quality and profitability will not be adversely affected by volatile macroeconomic and political conditions in Chile.

Developments in other countries may affect us, including the prices for our securities.

The prices of securities issued by Chilean companies, including banks, are influenced to varying degrees by economic and market considerations in other countries. We cannot assure you that future developments in or affecting the Chilean economy, including consequences of economic difficulties in other markets, will not materially and adversely affect our business, financial condition or results of operations.

We are exposed to risks related to the weakness and volatility of the economic and political situation in Asia, the United States, Europe (including Spain, where Santander Spain, our controlling shareholder, is based), Brazil, Argentina and other nations. Even though the world economy and the financial and capital markets have been recovering from the 2008 crisis throughout 2010 and early 2011, the conditions of the global markets again deteriorated in 2011 and continued through 2012. European countries encountered serious fiscal problems, including high debt levels that impaired growth and increased the risk of sovereign default. Also in 2011, the United States faced fiscal difficulties, which culminated in the downgrade of the U.S. long-term sovereign credit rating by S&P. Ongoing political debates in 2012 with respect to how the United States government would address the so-called "fiscal cliff" contributed to economic uncertainty. In 2012, spillovers from the crisis in Europe weighed negatively on activity and confidence and the global recovery slowed. In 2013, a general recovery was observed in the Eurozone and US economies. Although economic conditions in Europe and the United States may differ significantly from economic conditions in Chile, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Chilean issuers. In particular, investor perceptions of the risks associated with our securities may be affected by perception of risk conditions in Spain.

If these nations' economic conditions deteriorate, the economy in Chile, as both a neighboring country and a trading partner, could also be affected and could experience slower growth than in recent years, with possible adverse impact

on our borrowers and counterparties. If this were to occur, we would potentially need to increase our allowances for loan losses, thus affecting our financial results, our results of operations and the price of our securities. As of December 31, 2015, approximately 4.3% of our assets were held abroad. There can be no assurance that the ongoing effects of the global financial crisis will not negatively impact growth, consumption, unemployment, investment and the price of exports in Chile. Crises and political uncertainties in other Latin American countries could also have an adverse effect on Chile, the price of our securities or our business.

Chile has considerable economic ties with China. In 2015, 26.3% of Chile's exports went to China, mainly copper. China's economy has grown at a strong pace in recent times, but a slowdown in economic activity in China may affect Chile's GDP and export growth as well as the price of copper, which is Chile's main export.

Chile is also involved in an international litigation with Bolivia regarding maritime borders. We cannot assure you that crises and political uncertainty in other Latin American countries will not have an adverse effect on Chile, the price of our securities or our business.

Fluctuations in the rate of inflation may affect our results of operations.

High levels of inflation in Chile could adversely affect the Chilean economy and have an adverse effect on our business, financial condition and results of operations. Extended periods of deflation could also have an adverse effect on our business, financial condition and results of operations. In 2009, Chile experienced deflation of 1.4% as the global economy contracted. In 2015, CPI inflation was 4.4% compared to 4.7% in 2014.

Our assets and liabilities are denominated in Chilean pesos, UF and foreign currencies. The UF is revalued in monthly cycles. On each day in the period beginning on the tenth day of any given month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. For more information regarding the UF, see "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Impact of Inflation." Although we benefit from inflation in Chile due to the current structure of our assets and liabilities (*i.e.*, a significant portion of our loans are indexed to the inflation rate, but there are no corresponding features in deposits, or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation, including from extended periods of inflation that adversely affect economic growth or periods of deflation.

Any change in the methodology of how the CPI index or the UF is calculated could also adversely affect our business, financial condition and results of operations.

Currency fluctuations could adversely affect our financial condition and results of operations and the value of our securities.

Any future changes in the value of the Chilean peso against the U.S. dollar will affect the U.S. dollar value of our securities. The Chilean peso has been subject to large devaluations and appreciations in the past and could be subject to significant fluctuations in the future. Our results of operations may be affected by fluctuations in the exchange rates between the peso and the dollar despite our policy and Chilean regulations relating to the general avoidance of material exchange rate exposure. In order to avoid material exchange rate exposure, we enter into forward exchange transactions. The following table shows the value of the Chilean peso relative to the U.S. dollar as reported by the Central Bank at year end for the last five years and the devaluation or appreciation of the peso relative to the U.S. dollar in each of those years.

| Year | Exchange rate (Ch$) at year end | Devaluation (Appreciation) (%) |
| --- | --- | --- |

| | | |
|---|---|---|
| 2011 | 521.46 | 11.3 |
| 2012 | 478.60 | (8.2) |
| 2013 | 523.76 | 9.4 |
| 2014 | 607.38 | 16.0 |
| 2015 | 707.34 | 16.5 |
| 2016 (until April 28, 2016) | 668.49 | 5.5 |

Source: Central Bank.

We may decide to change our policy regarding exchange rate exposure. Regulations that limit such exposures may also be amended or eliminated. Greater exchange rate risk will increase our exposure to the devaluation of the peso, and any such devaluation may impair our capacity to service foreign currency obligations and may, therefore, materially and adversely affect our financial condition and results of operations. Notwithstanding the existence of general policies and regulations that limit material exchange rate exposures, the economic policies of the Chilean government and any future fluctuations of the peso against the dollar could affect our financial condition and results of operations.

Banking regulations and other regulatory factors may restrict our operations and thereby adversely affect our financial condition and results of operations.

We are subject to regulation by the SBIF. In addition, we are subject to regulation by the Central Bank with regard to certain matters, including reserve requirements, interest rates, foreign exchange mismatches and market risks. Changes in banking regulations may materially and adversely affect our business, financial condition and results of operations. Chilean laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions are continually evolving and changing. These new reforms could result in increased competition in the industry and thus may have a material adverse effect on our financial condition and results of operations.

As a result of the recent global financial crisis, there has been an increase in government regulation of the financial services industry in many countries. Such regulation may also be increased in Chile, including the imposition of higher capital requirements, heightened disclosure standards and restrictions on certain types of transaction structures. In addition, novel regulatory proposals abound in the current environment. If enacted, new regulations could require us to inject further capital into our business as well as in businesses we acquire, restrict the type or volume of transactions we enter into, or set limits on or require the modification of rates or fees that we charge on certain loans or other products, any of which could lower the return on our investments, assets and equity. Changes in regulations may also cause us to face increased compliance costs. As some of the banking laws and regulations have been recently adopted, the manner in which those laws and related regulations are applied to the operations of financial institutions is still evolving. Moreover, to the extent these recently adopted regulations are implemented inconsistently in the various jurisdictions in which we operate, it may face higher compliance costs. No assurance can be given generally that laws or regulations will be adopted, enforced or interpreted in a manner that will not have a material adverse effect on our business and results of operations.

In addition, extensive legislation affecting the financial services industry has recently been adopted in regions that directly or indirectly affect our business, including Spain, the United States and the European Union and other jurisdictions, and regulations are in the process of being implemented.

Pursuant to the General Banking Law, all Chilean banks may, subject to the approval of the SBIF, engage in certain businesses other than commercial banking depending on the risk associated with such business and their financial strength. Such additional businesses include securities brokerage, mutual fund management, securitization, insurance brokerage, leasing, factoring, financial advisory, custody and transportation of securities, loan collection and financial services. The General Banking Law also applies to the Chilean banking system a modified version of the capital adequacy guidelines issued by the Basel Committee on Banking Regulation and Supervisory Practices and limits the discretion of the SBIF to deny new banking licenses. There can be no assurance that regulators will not in the future impose more restrictive limitations on the activities of banks, including us. Any such change could have a material adverse effect on our financial condition or results of operations.

Historically, Chilean banks have not paid interest on amounts deposited in checking accounts. We have begun to pay interest on some checking accounts under certain conditions. If competition or other factors lead us to pay higher

interest rates on checking accounts, to relax the conditions under which we pay interest or to increase the number of checking accounts on which we pay interest, any such change could have a material adverse effect on our financial condition or results of operations.

On November 20, 2013, the Chilean Congress approved new legislation to reduce the maximum rates that can be charged on loans. This new legislation is aimed at loans of less than UF 200 (U.S.$7,241) and with a term of more than 90 days, and thus includes consumer loans in installments, lines of credit and credit card lines. Previously, the maximum interest rate for loans of less than UF 200 and with a term of more than 90 days was calculated as the average rate of all transactions undertaken within the banking industry over the previous month of loans of less than UF 200 and with a term of more than 90 days, multiplied by a factor of 1.5. The average and maximum rates are published daily by the SBIF. On December 13, 2013, the SBIF published the new maximum rates for loans between UF 0 and UF 50 (US$1,810). The new maximum rate was 47.91%, compared to 53.85% as of September 30, 2013. The objective is to lower the maximum rate to a level closer to the average interest rate for loans between UF 200 (US$7,241) to UF 5,000 (US$181,047) plus 21%, unless the flow of new loans in the industry decreases by 10%-20%, in which case the reduction will be partially or completely suspended until the next period. As of December 31, 2014, the maximum rate for loans between UF 0 and UF 50 (US$1,810) was 38.63%. By year-end 2015 the maximum rate was 36.66%, close to the level the authorities are seeking for loans of this size.

On December 13, 2013, the SBIF published the new maximum rates for loans between UF 50 (US$1,810) and UF 200 (US$7,241). The new maximum rate was 45.91%, compared to 53.85% as of September 30, 2013. The objective is to lower the maximum rate to a level closer to the average interest rate for loans between UF 200 (US$7,241) to UF 5,000 (US$181,047) plus 14%, unless the flow of new loans in the industry decreases by 10%-20%, in which case the reduction will be partially or completely suspended until the next period. As of December 31, 2014, the maximum rate for loans between UF 50 and UF 200 (US$7,241) was 36.63%. By year-end 2015 the maximum rate was 36.66%, close to the level the authorities are seeking for loans of this size.

In March 2012, a bill aimed at giving additional enforcement powers to the SERNAC (Chile's Consumer Protection Agency) regarding financial services became effective and created the SERNAC Financiero, a specific consumer protection agency for the financial industry. The SERNAC Financiero has powers to supervise and regulate Bank products and services. The creation of the SERNAC Financiero has also resulted in additional scrutiny regarding prices and contracts for financial products and services, making it more difficult to raise prices and increasing competition among bank and non-bank competitors. The government is currently discussing with the Chilean Congress a bill to again reform the SERNAC Financiero and its powers. No assurance can be given that these changes will not have a material impact on our fee income.

The SBIF and the Ministry of Finance are currently drafting a new General Banking Law that is expected to be submitted to the Chilean Congress in 2016. Among other things, the new banking law is expected to include clearer guidelines for the adoption of Basel III regulations in Chile and new regulations regarding the SBIF's corporate governance. Although we currently have a regulatory capital ratio of 13.4% as of December 31, 2015, this change could require us to inject additional capital to our business in the future. According to initial estimates of the impact of market risk on regulatory capital, published for informational purposes only by the SBIF, our ratio of regulatory capital to risk-weighted assets, net of loan loss allowance and deductions, including an initial estimate of the adjustments for market risk was 12.0% as of December 31, 2015. No assurance can be given that these changes will not have a material impact on our capitalization ratio.

A change in labor laws in Chile or a worsening of labor relations in the Bank could impact our business.

As of December 31, 2015 on a consolidated basis, we had 11,723 employees, of which 71.3% were unionized. In March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on January 1, 2014, and which will expire on December 31, 2018. We generally apply the terms of our collective bargaining agreement to unionized and non-unionized employees. We have traditionally had good relations with our employees and their unions, but we cannot assure you that in the future, a strengthening of cross-industry labor movements will not materially and adversely affect our business, financial condition or results of operations.

Congress passed a new labor law in 2016. The main points included in this law are:

- Expands the scope of collective bargaining. Currently some groups of workers are excluded from the collective bargaining process.
- Legalizes industry-wide unions.
- Gives union has sole collective bargaining rights. The ability of non-union groups to negotiate a collective bargaining agreement is eliminated.
- Expands workers ability to switch unions and gives workers the same rights under a collective bargaining agreement if they affiliate themselves post-negotiations.
- Expand the right to greater information of unions including the wages of each worker included in a collective bargaining agreement.
- Simplifies the standard collective bargaining process.
- Collective bargaining agreements must last maximum three years instead of four.
- Eliminate the ability of the employer to replace workers on strike and establishes minimum service guidelines that workers must respect.

- Establishes the current collective bargaining agreement as the bargaining floor for future collective bargaining agreements.
- Amplifies the matters that can be negotiated in collective bargaining.
- Greater hours for training of union representatives.
- Strengthen the participation of women in unions.

The Bank currently has a high unionization level and good labor relations. At this time, we are unable to estimate the impact these new regulations will have on labor relations and costs. The current project may also suffer additional modification will being discussed in Congress.

These and any additional legislative or regulatory actions in Chile, Spain, the European Union, the United States or other countries, and any required changes to our business operations resulting from such legislation and regulations, could result in reduced capital availability, significant loss of revenue, limit our ability to continue organic growth (including increased lending), pursue business opportunities in which we might otherwise consider engaging and provide certain products and services, affect the value of assets that we hold, require us to increase our prices and therefore reduce demand for our products, impose additional costs on us or otherwise adversely affect our businesses. Accordingly, we cannot provide assurance that any such new legislation or regulations would not have an adverse effect on our business, results of operations or financial condition in the future.

Our corporate disclosure may differ from disclosure regularly published by issuers of securities in other countries, including the United States.

Issuers of securities in Chile are required to make public disclosures that are different from, and that may be reported under presentations that are not consistent with, disclosures required in the United States and other countries. In particular, as a Chilean regulated financial institution, we are required to submit to the SBIF on a monthly basis unaudited consolidated balance sheets and income statements, excluding any note disclosure, prepared in accordance with Chilean Bank GAAP and the rules of the SBIF. This disclosure differs in a number of significant respects from generally accepted accounting principles in the United States and information generally available in the United States with respect to U.S. financial institutions. In addition, as a foreign private issuer, we are not subject to the same disclosure requirements in the United States as a domestic U.S. registrant under the Exchange Act, including the requirements to prepare and issue quarterly reports, or the proxy rules applicable to domestic U.S. registrants under Section 14 of the Exchange Act or the insider reporting and short-swing profit rules under Section 16 of the Exchange Act. Accordingly, the information about us available to you will not be the same as the information available to shareholders of a U.S. company and may be reported in a manner that you are not familiar with.

Chile imposes controls on foreign investment and repatriation of investments that may affect your investment in, and earnings from, our ADSs.

Equity investments in Chile by persons who are not Chilean residents have generally been subject to various exchange control regulations, which restrict the repatriation of the investments and earnings therefrom. In April 2001, the Central Bank eliminated the regulations that affected foreign investors, except that investors are still required to provide the Central Bank with information relating to equity investments and conduct such operations within Chile's Formal Exchange Market. The ADSs are subject to a contract, dated May 17, 1994, among the Depositary, us and the Central Bank (the "Foreign Investment Contract") that remains in full force and effect. The ADSs continue to be governed by the provisions of the Foreign Investment Contract subject to the regulations in existence prior to April 2001. The Foreign Investment Contract grants the Depositary and the holders of the ADSs access to the Formal Exchange Market, which permits the Depositary to remit dividends it receives from us to the holders of the ADSs. The Foreign Investment Contract also permits ADS holders to repatriate the proceeds from the sale of shares of our common stock withdrawn from the ADR facility, or that have been received free of payment as a consequence of spin offs, mergers, capital increases, wind ups, share dividends or preemptive rights transfers, enabling them to acquire the foreign currency necessary to repatriate earnings from such investments. Pursuant to Chilean law, the Foreign Investment Contract cannot be amended unilaterally by the Central Bank, and there are judicial precedents (although not binding with respect to future judicial decisions) indicating that contracts of this type may not be abrogated by future legislative changes or resolutions of the Advisory Council of the Central Bank. Holders of shares of our common stock, except for shares of our common stock withdrawn from the ADS facility or

received in the manner described above, are not entitled to the benefits of the Foreign Investment Contract, may not have access to the Formal Exchange Market, and may have restrictions on their ability to repatriate investments in shares of our common stock and earnings therefrom.

Holders of ADSs are entitled to receive dividends on the underlying shares to the same extent as the holders of shares. Dividends received by holders of ADSs will be paid net of foreign currency exchange fees and expenses of the Depositary and will be subject to Chilean withholding tax, currently imposed at a rate of 35.0% (subject to credits in certain cases). If for any reason, including changes in Chilean law, the Depositary were unable to convert Chilean pesos to U.S. dollars, investors would receive dividends and other distributions, if any, in Chilean pesos.

We cannot assure you that additional Chilean restrictions applicable to holders of our ADSs, the disposition of the shares underlying them or the repatriation of the proceeds from such disposition or the payment of dividends will not be imposed in the future, nor can we advise you as to the duration or impact of such restrictions if imposed.

Investors may find it difficult to enforce civil liabilities against us or our directors, officers and controlling persons.

We are a Chilean corporation. None of our directors are residents of the United States and most of our executive officers reside outside the United States. In addition, a substantial portion of our assets and the assets of our directors and executive officers are located outside the United States. Although we have appointed an agent for service of process in any action against us in the United States with respect to our ADSs, none of our directors, officers or controlling persons has consented to service of process in the United States or to the jurisdiction of any United States court. As a result, it may be difficult for investors to effect service of process within the United States on such persons.

It may also be difficult for ADS holders to enforce in the United States or in Chilean courts money judgments obtained in United States courts against us or our directors and executive officers based on civil liability provisions of the U.S. federal securities laws. If a U.S. court grants a final money judgment in an action based on the civil liability provisions of the federal securities laws of the United States, enforceability of this money judgment in Chile will be subject to the obtaining of the relevant “exequatur” (*i.e.*, recognition and enforcement of the foreign judgment) according to Chilean civil procedure law currently in force, and consequently, subject to the satisfaction of certain factors. The most important of these factors are the existence of reciprocity, the absence of a conflicting judgment by a Chilean court relating to the same parties and arising from the same facts and circumstances and the Chilean courts’ determination that the U.S. courts had jurisdiction, that process was appropriately served on the defendant and that enforcement would not violate Chilean public policy. Failure to satisfy any of such requirements may result in non-enforcement of your rights.

Risks Relating to Our Controlling Shareholder and our ADSs

Our controlling shareholder has a great deal of influence over our business and its interests could conflict with yours.

Santander Spain, our controlling shareholder, controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A., which are controlled subsidiaries. Santander Spain has control over 67.18% of our shares and actual participation, excluding non-controlling shareholders that participate in Santander Chile Holding, S.A. of 67.12%.

Due to its share ownership, our controlling shareholder has the ability to control us and our subsidiaries, including the ability to:

- elect the majority of the directors and exercise control over our company and subsidiaries;
- cause the appointment of our principal officers;
- declare the payment of any dividends;
- agree to sell or otherwise transfer its controlling stake in us; and
- determine the outcome of substantially all actions requiring shareholder approval, including amendments of our bylaws, transactions with related parties, corporate reorganizations, acquisitions and disposals of assets and issuance of additional equity securities, if any.

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In December 2012, primarily in response to the requirements of the European Banking Authority, the Bank of Spain and regulators in various jurisdictions, Santander Spain adopted a corporate governance framework (*Marco de Gobierno Interno del Grupo Santander*). The purpose of the framework is to organize and standardize the corporate governance practices of Santander Spain and its most significant subsidiaries, including us. (Our Board of Directors approved the adoption of this corporate governance framework in July 2013,) subject to certain overarching principles, such as the precedence of applicable laws and regulations over the framework to the extent they are in conflict. See "Item 16G. Corporate Governance." Our adoption of this framework may increase Santander Spain's control over us.

We operate as a stand-alone subsidiary within the Santander Group. Our controlling shareholder has no liability for our banking operations, except for the amount of its holdings of our capital stock. The interests of Santander Spain may differ from the interests of our other shareholders, and the concentration of control in Santander Spain may differ from the interests of our other shareholders, and the concentration of control in Santander Spain will limit other shareholders' ability to influence corporate matters. As a result, we may take actions that our other shareholders do not view as beneficial.

Our status as a controlled company and a foreign private issuer exempts us from certain of the corporate governance standards of the New York Stock Exchange ("NYSE"), limiting the protections afforded to investors.

We are a "controlled company" and a "foreign private issuer" within the meaning of the NYSE corporate governance standards. Under the NYSE rules, a controlled company is exempt from certain NYSE corporate governance requirements. In addition, a foreign private issuer may elect to comply with the practice of its home country and not to comply with certain NYSE corporate governance requirements, including the requirements that (1) a majority of the board of directors consist of independent directors, (2) a nominating and corporate governance committee be established that is composed entirely of independent directors and has a written charter addressing the committee's purpose and responsibilities, (3) a compensation committee be established that is composed entirely of independent directors and has a written charter addressing the committee's purpose and responsibilities and (4) an annual performance evaluation of the nominating and corporate governance and compensation committees be undertaken. Although we have similar practices, they do not entirely conform to the NYSE requirements for U.S. issuers; therefore we currently use these exemptions and intend to continue using them. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all NYSE corporate governance requirements.

There may be a lack of liquidity and market for our shares and ADSs.

Our ADSs are listed and traded on the NYSE. Our common stock is listed and traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaiso Stock Exchange, which we refer to collectively as the Chilean Stock Exchanges, although the trading market for the common stock is small by international standards. At December 31, 2015, we had 188,446,126,794 shares of common stock outstanding. The Chilean securities markets are

substantially smaller, less liquid and more volatile than major securities markets in the United States. According to Article 14 of the Ley de Mercado de Valores, Ley No. 18,045, or the Chilean Securities Market Law, the Superintendencia de Valores y Seguros, or the Superintendency of Securities and Insurance, may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean Stock Exchanges for up to 30 days if, in its opinion, such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended for up to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the Superintendency of Securities and Insurance will then cancel the relevant listing in the registry of securities. In addition, the Santiago Stock Exchange may inquire as to any movement in the price of any securities in excess of 10% and suspend trading in such securities for a day if it deems necessary.

Although our common stock is traded on the Chilean Stock Exchanges, there can be no assurance that a liquid trading market for our common stock will continue to exist. Approximately 33.0% of our outstanding common stock is held by the public (*i.e.*, shareholders other than Santander Spain and its affiliates), including our shares that are represented by ADSs trading on the NYSE. A limited trading market in general and our concentrated ownership in particular may impair the ability of an ADS holder to sell in the Chilean market shares of common stock obtained upon withdrawal of such shares from the ADR facility in the amount and at the price and time such holder desires, and could increase the volatility of the price of the ADSs.

You may be unable to exercise preemptive rights.

The *Ley Sobre Sociedades Anónimas, Ley No. 18,046* and the *Reglamento de Sociedades Anónimas*, which we refer to collectively as the Chilean Companies Law, and applicable regulations require that whenever we issue new common stock for cash, we grant preemptive rights to all of our shareholders (including holders of ADSs), giving them the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Such an offering would not be possible in the United States unless a registration statement under the U.S. Securities Act of 1933 ("Securities Act"), as amended, were effective with respect to such rights and common stock or an exemption from the registration requirements thereunder were available.

Since we are not obligated to make a registration statement available with respect to such rights and the common stock, you may not be able to exercise your preemptive rights in the United States. If a registration statement is not filed or an applicable exemption is not available under U.S. securities law, the Depositary will sell such holders' preemptive rights and distribute the proceeds thereof if a premium can be recognized over the cost of any such sale.

As a holder of ADSs you will have different shareholders' rights than in the United States and certain other jurisdictions.

Our corporate affairs are governed by our estatutos, or by-laws, and the laws of Chile, which may differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or in certain other jurisdictions outside Chile. Under Chilean corporate law, you may have fewer and less well-defined rights to protect your interests relative to actions taken by our board of directors or the holders of our common shares than under the laws of other jurisdictions outside Chile. For example, under legislation applicable to Chilean banks, our shareholders would not be entitled to appraisal rights in the event of a merger or other business combination undertaken by us.

Although Chilean corporate law imposes restrictions on insider trading and price manipulation, the form of these regulations and the manner of their enforcement may differ from that in the U.S. securities markets or markets in certain other jurisdictions. In addition, in Chile, self-dealing and the preservation of shareholder interests may be regulated differently, which could potentially disadvantage you as a holder of the shares underlying ADSs.

Holders of ADSs may find it difficult to exercise voting rights at our shareholders' meetings.

Holders of ADSs will not be our direct shareholders and will be unable to enforce directly the rights of shareholders under our by-laws and the laws of Chile. Holders of ADSs may exercise voting rights with respect to the common stock represented by ADSs only in accordance with the deposit agreement governing the ADSs. Holders of ADSs will face practical limitations in exercising their voting rights because of the additional steps involved in our

communications with ADS holders. Holders of our common stock will be able to exercise their voting rights by attending a shareholders' meeting in person or voting by proxy. By contrast, holders of ADSs will receive notice of a shareholders' meeting by mail from the Depositary following our notice to the Depositary requesting the Depository to do so. To exercise their voting rights, holders of ADSs must instruct the Depositary on a timely basis on how they wish to vote. This voting process necessarily will take longer for holders of ADSs than for holders of our common stock. If the Depositary fails to receive timely voting instructions for all or part of the ADSs, the Depositary will assume that the holders of those ADSs are instructing it to give a discretionary proxy to a person designated by us to vote their ADSs, except in limited circumstances.

Holders of ADSs also may not receive the voting materials in time to instruct the Depositary to vote the common stock underlying their ADSs. In addition, the Depositary and its agents are not responsible for failing to carry out voting instructions of the holders of ADSs or for the manner of carrying out those voting instructions. Accordingly, holders of ADSs may not be able to exercise voting rights, and they will have little, if any, recourse if the common stocks underlying their ADSs are not voted as requested.

ADS holders may be subject to additional risks related to holding ADSs rather than shares.

Because ADS holders do not hold their shares directly, they are subject to the following additional risks, among others:

- as an ADS holder, we will not treat you as one of our direct shareholders and you may not be able to exercise shareholder rights;
- we and the depositary may amend or terminate the deposit agreement without the ADS holders' consent in a manner that could prejudice ADS holders or that could affect the ability of ADS holders to transfer ADSs; and
- the depositary may take or be required to take actions under the Deposit Agreement that may have adverse consequences for some ADS holders in their particular circumstances.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

#### Overview

We are the largest bank in Chile in terms of total assets and loans. As of December 31, 2015, we had total assets of Ch$34,637,660 million (U.S.$48,937 million), outstanding loans, net of allowances for loan losses of Ch$24,538,456 million (U.S.$34,669 million), total deposits of Ch$19,538,888 million (U.S.$ 27,605 million) and equity of Ch$2,802,555 million (U.S.$3,960 million). As of December 31, 2015, we employed 11,723 people. We have a leading presence in all the major business segments in Chile, and the largest distribution network with national coverage spanning across all the country, including the only privately owned bank with a branch in Easter Island. We offer unique transaction capabilities to clients through our 471 branches and 1,536 ATMs. Our headquarters are located in Santiago and we operate in every major region of Chile.

We provide a broad range of commercial and retail banking services to our customers, including Chilean peso and foreign currency denominated loans to finance a variety of commercial transactions, trade, foreign currency forward contracts and credit lines and a variety of retail banking services, including mortgage financing. We seek to offer our customers a wide range of products while providing high levels of service. In addition to our traditional banking operations, we offer a variety of financial services, including financial leasing, financial advisory services, mutual fund management, securities brokerage, insurance brokerage and investment management.

The legal predecessor of Santander-Chile was Banco Santiago ("Santiago"). Santiago was incorporated by public deed dated September 7, 1977 granted at the Notary Office of Alfredo Astaburuaga Gálvez. Santiago received its permission to incorporate and function as a bank by Resolution No. 118 of the SBIF on October 27, 1977. Santiago's by-laws were approved by Resolution No. 103 of the SBIF on September 22, 1977. In January 1997, Santiago merged with Banco O'Higgins, with Santiago being the surviving entity. In 1999, Santiago became a controlled subsidiary of Santander Spain. As of June 30, 2002, Santiago was the second-largest private sector bank in Chile in terms of total assets, deposits, loans and shareholders' equity.

Old Santander-Chile was established as a subsidiary of Santander Spain in 1978. In 1982, Old Santander-Chile acquired a significant portion of the assets and liabilities of Banco Español-Chile, a domestic bank that had become insolvent. In July 1996, Old Santander-Chile was merged into Banco Osorno y la Unión, becoming "Banco Santander-Chile," the third-largest private bank in terms of outstanding loans at that date.

On August 1, 2002, Santiago and Old Santander Chile merged, whereby the latter ceased to exist and Santander-Chile (formerly known as Santiago) being the surviving entity.

Our principal executive offices are located at Bandera 140, 20th floor, Santiago, Chile. Our telephone number is +562-320-2000 and our website is www.santander.cl. None of the information contained on our website is incorporated by reference into, or forms part of, this Annual Report. Our agent for service of process in the United States is CT Corporation, located at 111 Eighth Avenue, 13th Floor, New York, New York 10011.

Relationship with Santander Spain

We believe that our relationship with our controlling shareholder, Santander Spain, offers us a significant competitive advantage over our peer Chilean banks. Santander Spain is one of the largest financial groups in Brazil and the rest of Latin America, in terms of total assets measured on a regional basis. It is the largest financial group in Spain and is a major player elsewhere in Europe, including the United Kingdom, Poland and Portugal, where it is the third-largest banking group. Through Santander Consumer, it also operates a leading consumer finance franchise in the United States, as well as in Germany, Italy, Spain, and several other European countries.

Our relationship with Santander Spain provides us with access to the group's client base, while its multinational focus allows us to offer international solutions to our clients' financial needs. We also have the benefit of selectively borrowing from Santander Spain's product offerings in other countries, as well as of its know-how in systems management. We believe that our relationship with Santander Spain will also enhance our ability to manage credit and market risks by adopting policies and knowledge developed by Santander Spain. In addition, our internal auditing function has been strengthened as a result of the addition of an internal auditing department that concurrently reports directly to our Audit Committee and the audit committee of Santander Spain. We believe that this structure leads to improved monitoring and control of our exposure to operational risks.

Santander Spain's support of Santander-Chile includes the assignment of managerial personnel to key supervisory areas of Santander-Chile, such as risks, auditing, accounting and financial control. Santander-Chile does not pay any management or other fees to Santander Spain in connection with these support services.

B. Business Overview

We have 471 total branches, 276 of which are operated under the Santander brand name, with the remaining branches under certain specialty brand names, including 67 under the *Santander Banefe* brand name, 53 under the Select brand name, 8 specialized branches for the Middle Market and 67 as auxiliary and payment centers. We provide a full range of financial services to corporate and individual customers. We divide our clients into the following groups: (i) Retail banking, (ii) Middle-market, (iii) Global Corporate Banking and (iv) Corporate Activities ("Other").

The Bank has the reportable segments noted below (see "Segmentation Criteria" for further information):

Retail Banking

Consists of individuals and small to middle-sized entities (SMEs) with annual sales less than Ch$2,000 million (US$2.8 million). This segment gives customers a variety of services, including consumer loans, credit cards, auto loans, commercial loans, foreign exchange, mortgage loans, debit cards, checking accounts, savings products, mutual funds, stock brokerage, and insurance brokerage. Additionally, the SME clients are offered government-guaranteed loans, leasing and factoring.

Middle-market

This segment serves companies and large corporations with annual sales exceeding Ch$2,000 million (US$2.8 million). It serves institutions such as universities, government entities, local and regional governments and companies engaged in the real estate industry who carry out projects to sell properties to third parties and annual sales exceeding Ch$800 million (US$1.1million) with no upper limit. The companies within this segment have access to many products including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, savings products, mutual funds, and insurance brokerage. Also companies in the real estate industry are offered specialized services to finance projects, chiefly residential, with the aim of expanding sales of mortgage loans.

Global Corporate Banking

This segment consists of foreign and domestic multinational companies with sales over Ch$10,000 million. The companies within this segment have access to many products including commercial loans, leasing, factoring, foreign trade, credit cards, mortgage loans, checking accounts, transactional services, treasury services, financial consulting, investments, savings products, mutual funds and insurance brokerage.

This segment also consists of a Treasury Division which provides sophisticated financial products, mainly to companies in the Middle-market segment and Global Corporate Banking. These include products such as short-term financing and fund raising, brokerage services, derivatives, securitization and other tailor-made products. The Treasury Division may broker transactions and also manages the Bank's investment portfolio.

Corporate Activities ("Other")

This segment mainly includes our Financial Management Division, which develops global management functions, including managing inflation rate risk, foreign currency gaps, interest rate risk and liquidity risk. Liquidity risk is managed mainly through wholesale deposits, debt issuances and the Bank's available-for-sale portfolio. This segment also manages capital allocation by unit. These activities usually result in a negative contribution to income.

In addition, this segment encompasses all the intra-segment income and all the activities not assigned to a given segment or product with customers. The segments' accounting policies are those described in the summary of accounting policies. The Bank earns most of its income in the form of interest income, fee and commission income and income from financial operations. To evaluate a segment's financial performance and make decisions regarding the resources to be assigned to segments, the Chief Operating Decision Maker (CODM) bases his assessment on the segment's interest income, fee and commission income, and expenses.

The tables below show the Bank's results by reporting segment for the year ended December 31, 2015, in addition to the corresponding balances of loans and accounts receivable from customers:

| | As of December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Loans and accounts receivable from customers** | **Net interest income** | **Net fee and commission income** | **Financial transactions, net** | **Provision for loan losses** | **Support expenses (3)** | **Segment`s net contribution** |

| | (1) | | | (2) Ch$mn | | | |
|---|---|---|---|---|---|---|---|
| **Retail Banking** | 17,034,707 | [illegible] | [illegible] | 16,245 | (332,657) | (533,086) | **213,908** |
| **Middle-market** | 6,006,282 | 229,817 | 28,532 | 17,897 | (26,147) | (77,261) | **172,838** |
| **Global Corporate Banking** | 2,178,643 | 85,231 | 15,553 | 50,327 | (28,426) | (49,533) | **73,152** |
| **Other** | 81,125 | 66,815 | 3,479 | 61,030 | (12,047) | (1,328) | **117,949** |
| **Total** | **25,300,757** | [illegible] | [illegible] | **145,499** | **(399,277)** | **(661,208)** | **577,847** |

| | |
|---|---|
| Other operating income | 6,439 |
| Other operating expenses and impairment | (58,750) |
| Income from investments in associates and other companies | 2,588 |
| Income tax expense | (76,395) |
| **Net income for the year** | **451,729** |

(1) Corresponds to loans and accounts receivable from customers, without deducting their allowances for loan losses.

(2) Corresponds to the sum of the net income from financial operations and the foreign exchange profit or loss.

(3) Corresponds to the sum of personnel salaries and expenses, administrative expenses, depreciation and amortization.

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Operations through Subsidiaries

Today, the General Banking Law permits us to directly provide the leasing and financial advisory services that we could formerly offer only through our subsidiaries, to offer investment advisory services outside of Chile and to undertake activities that we could not formerly offer directly or through subsidiaries, such as factoring, securitization, foreign investment funds, custody and transport of securities and insurance brokerage services. For the twelve–month period ended December 31, 2015, our subsidiaries collectively accounted for 0.8% of our total consolidated assets.

| | | Percent ownership share As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2015 | | | 2014 | | | 2013 | | |
| Name of the Subsidiary | Main activity | Direct % | Indirect % | Total % | Direct % | Indirect % | Total % | Direct % | Indirect % | Total % |
| Santander Corredora de Seguros Limitada | Insurance brokerage | 99.75 | 0.01 | 99.76 | 99.75 | 0.01 | 99.76 | 99.75 | 0.01 | 99.76 |
| Santander Corredores de Bolsa Limitada(*) | Financial instruments brokerage | 50.59 | 0.41 | 51.00 | 50.59 | 0.41 | 51.00 | 50.59 | 0.41 | 51.00 |
| Santander Agente de Valores Limitada | Securities brokerage | 99.03 | - | 99.03 | 99.03 | – | 99.03 | 99.03 | – | 99.03 |
| Santander S.A. Sociedad Securitizadora | Purchase of credits and issuance of debt instruments | 99.64 | - | 99.64 | 99.64 | – | 99.64 | 99.64 | – | 99.64 |
| Santander Servicios de Recaudación y Pagos Limitada (**) | Support society, making and receiving payments | - | - | - | – | – | – | 99.90 | 0.10 | 100.00 |

(*) On June 19, 2015, Santander Corredores de Bolsa Limitada, our stock brokerage company changed its corporate structure to that of a limited liability company.

(**) From May 1, 2014, this entity was absorbed by the Bank, with authorization for this transaction obtained from the SBIF on March 26, 2014.

The following companies have been consolidated based on the determination that they are controlled by the Bank, in accordance with IFRS 10 Consolidated Financial Statements:

- Santander Gestión de Recaudación y Cobranza Limitada (collection services)
- Bansa Santander S.A. (management of repossessed assets and leasing of properties)

During 2015, Multinegocios S.A. (management of sales force), Servicios Administrativos y Financieros Limitada (management of sales force) and Multiservicios de Negocios Limitada (call center) have ceased rendering sales

services to the Bank and the Bank no longer controls their relevant activities. Therefore as of June 30, 2015, these entities have not been consolidated. As of August 1, 2014, Servicios de Cobranza Fiscalex Limitada was absorbed by Santander Gestión de Recaudación y Cobranza Limitada.

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Competition

Overview

The Chilean financial services market consists of a variety of largely distinct sectors. The most important sector, commercial banking, includes a number of privately-owned banks and one public–sector bank, Banco del Estado de Chile (which operates within the same legal and regulatory framework as the private sector banks). The private-sector banks include local banks and a number of foreign-owned banks operating in Chile. The Chilean banking system is comprised of 24 banks, including one public-sector bank. The four largest banks accounted for 64.2% of all outstanding loans by Chilean financial institutions as of December 31, 2015 (excluding assets held abroad by Chilean banks).

The Chilean banking system has experienced increased competition in recent years, largely due to consolidation in the industry and new legislation. We also face competition from non-bank and non-finance competitors, principally department stores, credit unions and cajas de compensación with respect to some of our credit products, such as credit cards, consumer loans and insurance brokerage. In addition, we face competition from non–bank finance competitors, such as leasing, factoring and automobile finance companies, with respect to credit products, and mutual funds, pension funds and insurance companies, with respect to savings products. Currently, banks continue to be the main suppliers of leasing, factoring and mutual funds, and the insurance sales business has grown rapidly.

All the competition data in the following sections is based on Chilean Bank GAAP.

The following tables set out certain statistics comparing our market position to that of our peer group, defined as the five largest banks in Chile in terms of total loans as of December 31, 2015 (excluding assets held by Chilean banks abroad).

| | As of December 31, 2015, unless otherwise noted | |
|---|---|---|
| | Market Share | Rank |
| Commercial loans | 17.2% | 2 |
| Consumer loans | 23.3% | 1 |
| Residential mortgage loans | 21.5% | 1 |
| Total loans | 19.1% | 1 |
| Deposits | 18.4% | 1 |
| Credit card issued | 15.4% | 3 |
| Checking accounts | 20.1% | 3 |

| Branches | 20.2% | 1 |
|---|---|---|

Source: SBIF

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Loans

As of December 31, 2015, our loan portfolio was the largest among Chilean banks. Our loan portfolio, including interbank loans, represented 19.1% of the market for loans in the Chilean financial system as of such date. The following table sets forth our and our peer group's market shares in terms of loans (excluding assets held by Chilean banks abroad).

| | As of December 31, 2015 | | |
|---|---|---|---|
| Loans | Ch$ million | U.S.$ million | Market Share |
| Santander-Chile | 25,300,757 | $35,746 | 19.1 % |
| Banco de Chile | 24,953,505 | $35,255 | 18.8 % |
| Banco del Estado de Chile | 18,349,962 | $25,925 | 13.8 % |
| Banco de Crédito e Inversiones | 16,610,278 | $23,467 | 12.5 % |
| Corpbanca | 9,049,012 | $12,785 | 6.8 % |
| BBVA, Chile | 9,030,380 | $12,758 | 6.8 % |
| Others | 29,371,427 | $41,497 | 22.2 % |
| Chilean financial system | 132,665,321 | $187,433 | 100.0% |

Source: SBIF

Deposits

We had a 18.4% market share in deposits, ranking first among banks in Chile as of December 31, 2015. Deposit market share is based on total time and demand deposits as of the respective dates. The following table sets forth our and our peer group's market shares in terms of deposits (excluding assets held by Chilean banks abroad).

| | As of December 31, 2015 | | |
|---|---|---|---|
| Deposits | Ch$ million | U.S.$ million | Market Share |
| Santander-Chile | 19,538,888 | $27,605 | 18.4 % |
| Banco de Chile | 18,234,740 | $25,763 | 17.1 % |
| Banco del Estado de Chile | 19,155,750 | $27,064 | 18.0 % |
| Banco de Crédito e Inversiones | 13,256,952 | $18,730 | 12.5 % |
| Corpbanca | 6,908,722 | $9,761 | 6.5 % |
| BBVA, Chile | 6,689,730 | $9,451 | 6.3 % |
| Others | 22,541,487 | $31,847 | 21.2 % |
| Chilean financial system | 106,326,269 | $150,221 | 100.0% |

Source: SBIF. Information as of Dec. 2015, except for information for Banco de Crédito e Inversiones, which is as of Nov. 2015 due to incorrect figures published by the SBIF for Banco de Crédito e Inversiones for Dec. 2015.

Total equity

With Ch$2,764,880 million (U.S.$3,906 million) in equity in Chilean Bank GAAP as of December 31, 2015, we were the largest commercial bank in Chile in terms of shareholders' equity. The following table sets forth our and our peer group's shareholders' equity.

| | As of December 31, 2015 | | |
|---|---|---|---|
| Total Equity | Ch$ million | U.S.$ million | Market Share |
| Santander-Chile | 2,764,880 | 3,906 | 17.9 % |
| Banco de Chile | 2,740,087 | 3,871 | 17.8 % |
| Banco del Estado de Chile | 1,493,967 | 2,111 | 9.7 % |
| Banco de Crédito e Inversiones | 2,000,525 | 2,826 | 13.0 % |
| Corpbanca | 1,497,579 | 2,116 | 9.7 % |
| BBVA, Chile | 766,384 | 1,083 | 5.0 % |
| Others | 4,149,232 | 5,862 | 26.9 % |
| Chilean financial system | 15,412,654 | 21,775 | 100.0% |

Source: SBIF.

Efficiency

As of December 31, 2015, we were the most efficient bank in our peer group. The following table sets forth our and our peer group's efficiency ratio (defined as operating expenses as a percentage of operating revenue, which is the aggregate of net interest income, fees and income from services (net), net gains from mark–to–market and trading, exchange differences (net) and other operating income (net)) in 2015.

| Efficiency ratio as defined by the SBIF | As of December 31, 2015 |
|---|---|
| Santander-Chile | 43.8% |
| Banco de Chile | 44.0% |
| Banco del Estado de Chile | 63.1% |
| Banco de Crédito e Inversiones | 50.1% |
| BBVA, Chile | 53.1% |
| Corpbanca | 50.7% |
| Chilean financial system | 50.8% |

Source: SBIF.

Net income for the period attributable to equity holders

In 2015, we were the second largest bank in Chile in terms of net income attributable to shareholders of Ch$448,878 million (U.S.$634 million) measured under Chilean Bank GAAP. The following table sets forth our and our peer group's net income.

| Net income attributable to equity holders | As of December 31, 2015 | | |
|---|---|---|---|
| | Ch$ million | U.S.$ million | Market Share |
| Santander-Chile | 448,878 | 634 | 20.9 % |
| Banco de Chile | 558,995 | 790 | 26.1 % |
| Banco de Crédito e Inversiones | 330,819 | 467 | 15.4 % |
| Corpbanca | 201,771 | 285 | 9.4 % |
| BBVA, Chile | 89,063 | 126 | 4.2 % |
| Banco del Estado de Chile | 112,583 | 159 | 5.3 % |
| Others | 401,600 | 567 | 18.7 % |
| Chilean financial system | 2,143,709 | 3,028 | 100.0% |

Source: SBIF.

Return on equity

As of December 31, 2015, we were the third most profitable bank in our peer group (as measured by return on period-end equity under Chilean Bank GAAP) and the most capitalized bank as measured by the Chilean BIS ratio. The following table sets forth our and our peer group's return on average equity and BIS ratio.

| | Return on period-end equity as of December 31, 2015 | BIS Ratio as of December 31, 2015 |
|---|---|---|
| Santander-Chile | 16.4% | 13.4% |
| Banco de Chile | 20.4% | 12.6% |
| Banco del Estado de Chile | 8.2% | 11.7% |
| Banco de Crédito e Inversiones | 16.5% | 12.0% |
| BBVA, Chile | 11.6% | 11.5% |
| Corpbanca | 15.0% | 9.5% |
| Chilean Financial System | 14.2% | 12.6% |

Source: SBIF.

Asset Quality

As of December 31, 2015, we had the second-highest non-performing loan to loan ratio in our peer group. The following table sets forth our and our peer group's non-performing loan ratio as defined by the SBIF as of December 31, 2015.

| | Non-performing loans / total loans[(1)] as of December 31, 2015 |
|---|---|
| Santander-Chile | 2.54% |
| Banco de Chile | 1.20% |
| Banco del Estado de Chile | 3.00% |
| Banco de Crédito e Inversiones | 1.48% |
| BBVA, Chile | 1.41% |
| Corpbanca | 1.32% |
| Chilean financial system | 1.86% |

Source: SBIF.

(1) Excluding interbank loans.

Regulation and Supervision

General

In Chile, only banks may maintain checking accounts for their customers, conduct foreign trade operations, and, together with non-banking financial institutions, accept time deposits. The principal authorities that regulate financial institutions in Chile are the SBIF and the Central Bank. Chilean banks are primarily subject to the General Banking Law, and secondarily subject, to the extent not inconsistent with this statute, the provisions of the Chilean Companies Law governing public corporations, except for certain provisions which are expressly excluded.

The modern Chilean banking system dates from 1925 and has been characterized by periods of substantial regulation and state intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in the adoption of a series of amendments to General Banking Law. That law, amended most recently in 2001, granted additional powers to banks, including general underwriting powers for new issues of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory and mutual fund services, administration of investment funds, factoring, securitization products and financial leasing services.

The Central Bank

The Central Bank is an autonomous legal entity created by the Chilean Constitution. It is subject to the Chilean Constitution and its own *ley orgánica constitucional*, or organic constitutional law. To the extent not inconsistent with the Chilean Constitution or the Central Bank's organic constitutional law, the Central Bank is also subject to private sector laws (but in no event is it subject to the laws applicable to the public sector). It is directed and administered by a Board of Directors composed of five members designated by the President of Chile, subject to the approval of the Chilean Senate.

The legal purpose of the Central Bank is to maintain the stability of the Chilean peso and the orderly functioning of Chile's internal and external payment systems. The Central Bank's powers include setting reserve requirements, regulating the amount of money and credit in circulation, establishing regulations and guidelines regarding finance companies, foreign exchange (including the Formal Exchange Market) and banks' deposit-taking activities.

The SBIF

Banks are supervised and controlled by the SBIF, an independent Chilean governmental agency. The SBIF authorizes the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements applicable to banks and financial companies. Furthermore, in cases of noncompliance with such legal and regulatory requirements, the SBIF has the ability to impose sanctions. In extreme cases, it can appoint, with the

prior approval of the Board of Directors of the Central Bank, a provisional administrator to manage a bank. It must also approve any amendment to a bank's by-laws or any increase in its capital.

The SBIF examines all banks from time to time, generally at least once a year. Banks are also required to submit their financial statements monthly to the SBIF, and a bank's financial statements are published at least four times a year in a newspaper with countrywide coverage. In addition, banks are required to provide extensive information regarding their operations at various periodic intervals to the SBIF. A bank's annual financial statements and the opinion of its independent auditors must also be submitted to the SBIF.

Any person wishing to acquire, directly or indirectly, 10.0% or more of the share capital of a bank must obtain the prior approval of the SBIF. Absent such approval, the acquirer of shares so acquired will not have the right to vote. The SBIF may only refuse to grant its approval, based on specific grounds set forth in the General Banking Law.

According to Article 35*bis* of the General Banking Law, the prior authorization of the SBIF is required for:

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a bank's assets and liabilities by another bank;
- the control by the same person, or controlling group, of two or more banks; or
- a substantial increase in the existing control of a bank by a controlling shareholder of that bank.

Such prior authorization is required solely when the acquiring bank or the resulting group of banks would own a significant market share in loans, defined by the SBIF to be more than 15.0% of all loans in the Chilean banking system. The intended purchase, merger or expansion may be denied by the SBIF; or, if the acquiring bank or resulting group would own a market share in loans determined to be more than 20.0% of all loans in the Chilean banking system, the purchase, merger or expansion may be conditioned on one or more of the following:

- that the bank or banks maintain regulatory capital higher than 8.0% and up to 14.0% of their risk-weighted assets;
- that the technical reserve established in Article 65 of the General Banking Law be applicable when deposits exceed one and a half times the resulting bank's paid-in capital and reserves; or

- that the margin for interbank loans be reduced to 20.0% of the resulting bank's regulatory capital.

If the acquiring bank or resulting group would own a market share in loans determined by the SBIF to be more than 15% but less than 20%, the authorization will be conditioned on the bank or banks maintaining a regulatory capital not lower than 10% of their risks-weighted assets for the period specified by the SBIF, which may not be less than one year. The calculation of the risk-weighted assets is based on a five-category risk classification system applied to a bank's assets that is based on the Basel Committee recommendations.

Pursuant to the regulations of the SBIF, the following ownership disclosures are required:

- a bank is required to inform the SBIF of the identity of any person owning, directly or indirectly, 5.0% or more of such banks' shares;
- holders of ADSs must disclose to the Depositary the identity of beneficial owners of ADSs registered under such holders' names;
- the Depositary is required to notify the bank as to the identity of beneficial owners of ADSs which such Depositary has registered and the bank, in turn, is required to notify the SBIF as to the identity of the beneficial owners of the ADSs representing 5.0% or more of such banks' shares; and
- bank shareholders who individually hold 10.0% or more of a bank's capital stock and who are controlling shareholders must periodically inform the SBIF of their financial condition.

Limitations on Types of Activities

Chilean banks can only conduct those activities allowed by the General Banking Law: making loans, accepting deposits and, subject to limitations, making investments and performing financial services. Investments are restricted to real estate for the bank's own use, gold, foreign exchange and debt securities. Through subsidiaries, banks may also engage in other specific financial service activities such as securities brokerage services, equity investments, securities, mutual fund management, investment fund management, financial advisory and leasing activities. Subject to specific limitations and the prior approval of the SBIF and the Central Bank, Chilean banks may own majority or non-controlling interests in foreign banks.

Since June 1, 2002, Chilean banks are allowed to offer a new checking account product that pays interest. The SBIF also stated that these accounts may be subject to minimum balance limits and different interest rates depending on average balances held in the account and that banks may also charge fees for the use of this new product. For banks with a solvency score of less than A, the Central Bank has also imposed additional caps to the interest rate that can be paid.

On June 5, 2007, pursuant to Law 20.190, new regulations became effective authorizing banks to enter into transactions involving a wider range of derivatives, such as futures, options, swaps, forwards and other derivative instruments or contracts subject to specific limitations established by the Central Bank of Chile. Previously, banks were able to enter into transactions involving derivatives, but subject to more restrictive guidelines.

Deposit Insurance

The Chilean government guarantees up to 90.0% of the principal amount of certain time and demand deposits and savings accounts held by natural persons with a maximum value of UF120 per person (Ch$3,075,490 or U.S.$4,345 as of December 31, 2015) per calendar year in the entire financial system.

Reserve Requirements

Deposits are subject to a reserve requirement of 9.0% for demand deposits and 3.6% for time deposits (with terms of less than one year). For purposes of calculating the reserve obligation, banks are authorized to deduct daily from their foreign currency denominated liabilities, the balance in foreign currency of certain loans and financial investments held outside of Chile, the most relevant of which include:

- cash clearance account, which should be deducted from demand deposit for calculating reserve requirement;
- certain payment orders issued by pension providers; and
- the amount set aside for “technical reserve” (as described below), which can be deducted from reserve requirement.

The Central Bank has statutory authority to require banks to maintain reserves of up to an average of 40.0% for demand deposits and up to 20.0% for time deposits (irrespective, in each case, of the currency in which they are denominated) to implement monetary policy. In addition, to the extent that the aggregate amount of the following types of liabilities exceeds 2.5 times the amount of a bank’s regulatory capital, a bank must maintain a 100% “technical reserve” against them: demand deposits, deposits in checking accounts, or obligations payable on sight incurred in the ordinary course of business, and in general all deposits unconditionally payable immediately but excluding interbank demand deposits.

Minimum Capital

Under the General Banking Law, a bank is required to have a minimum of UF800,000 (approximately Ch$20,503,272 million or U.S.$28.9 million as of December 31, 2015) of paid-in capital and reserves, calculated in accordance with Chilean GAAP, regulatory capital of at least 8% of its risk weighted assets, net of required allowances, and paid in capital and reserves of at least 3% of its total assets, net of required allowances, as calculated in accordance with Chilean GAAP.

Regulatory capital is defined as the aggregate of:

- a bank's paid-in capital and reserves, excluding capital attributable to subsidiaries and foreign branches or *capital básico*;
- its subordinated bonds, valued at their placement price (but decreasing by 20.0% for each year during the period commencing six years prior to maturity), for an amount up to 50.0% of its basic capital; and
- its voluntary allowances for loan losses for an amount of up to 1.25% of risk weighted-assets.

Capital Adequacy Requirements

According to the General Banking Law, each bank should have regulatory capital of at least 8.0% of its risk-weighted assets, net of required allowances. The calculation of risk weighted assets is based on a five-category risk classification system for bank assets that is based on the Basel Committee recommendations. The SBIF is expected to implement in 2016 the Basel III capital standards in Chile, which will includes the implementation of capital limits with market risk and operational risk-weighted assets. These changes must be approved by the Chilean Congress, as it involves a modification to the General Banking Law.

Banks should also have *capital básico*, or basic capital, of at least 3.0% of their total assets, net of allowances. Basic capital is defined to include shareholders' equity.

Within the scope of Basel III in Chile, further changes in regulation may occur. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Chile—Banking regulations may restrict our operations and thereby adversely affect our financial condition and results of operations."

Lending Limits

Under the General Banking Law, Chilean banks are subject to certain lending limits, including the following material limits:

- A bank may not extend to any entity or individual (or any one group of related entities), except for another financial institution, directly or indirectly, unsecured credit in an amount that exceeds 10.0% of the bank's regulatory capital, or

in an amount that exceeds 30.0% of its regulatory capital if the excess over 10.0% is secured by certain assets with a value equal to or higher than such excess. These limits were raised from 5.0% and 25.0%, respectively, in 2007 by the *Reformas al Mercado de Capitales II* (also known as MK2). In the case of financing infrastructure projects built by government concession, the 10.0% ceiling for unsecured credits is raised to 15.0% if secured by a pledge over the concession, or if granted by two or more banks or finance companies which have executed a credit agreement with the builder or holder of the concession;

- a bank may not extend loans to another financial institution subject to the General Banking Law in an aggregate amount exceeding 30.0% of its regulatory capital;

- a bank may not directly or indirectly grant a loan whose purpose is to allow an individual or entity to acquire shares of the lender bank;

- a bank may not lend, directly or indirectly, to a director or any other person who has the power to act on behalf of the bank; and

- a bank may not grant loans to related parties (including holders of more than 1.0% of its shares) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations described in the first bullet point above. In addition, the aggregate amount of loans to related parties may not exceed a bank's regulatory capital.

In addition, the General Banking Law limits the aggregate amount of loans that a bank may grant to its employees to 1.5% of its regulatory capital, and provides that no individual employee may receive loans in excess of 10.0% of this 1.5% limit. Notwithstanding these limitations, a bank may grant to each of its employees a single residential mortgage loan for personal use once during such employee's term of employment.

Allowance for Loan Losses

Chilean banks are required to provide to the SBIF detailed information regarding their loan portfolio on a monthly basis. The SBIF examines and evaluates each financial institution's credit management process, including its compliance with the loan classification guidelines. Banks are classified into four categories: 1, 2, 3 and 4. Each bank's category depends on the models and methods used by the bank to classify its loan portfolio, as determined by the SBIF. Category 1 banks are those banks whose methods and models are satisfactory to the SBIF. Category 1 banks will be entitled to continue using the same methods and models they currently have in place. A bank classified as a category 2 bank will have to maintain the minimum levels of reserves established by the SBIF while its Board of Directors will be made aware of the problems detected by the SBIF and required to take steps to correct them. Banks classified as categories 3 and 4 will have to maintain the minimum levels of reserves established by the SBIF until they are authorized by the SBIF to do otherwise. Santander-Chile is categorized as a "Category 1" bank.

Differences between IFRS and Chilean Bank GAAP

As stated above, Chilean Bank GAAP, as prescribed by the *Compendium of Accounting Standards* (the "Compendium"), differs in certain respects from IFRS. The main differences that should be considered by an investor are the following:

Suspension of Income Recognition on Accrual Basis

In accordance with the Compendium, financial institutions must suspend recognition of income on an accrual basis in their statements of income for certain loans included in the impaired portfolio. IFRS does not allow the suspension of accrual of interest on financial assets for which an impairment loss has been determined. We do not believe that this difference materially impacts our financial statements.

Charge-offs and Accounts Receivable

The Compendium requires companies to establish deadlines for the charge-off of loans and accounts receivable. IFRS does not require any such deadline for charge-offs. A charge-off due to impairment would be recorded, if and only if, all efforts at collection of the loan or account receivable had been exhausted. We do not believe that this difference materially impacts our financial statements.

Assets Received in Lieu of Payment

The Compendium requires that the initial value of assets received in lieu of payment be the value agreed upon with a debtor as a result of the loan settlement or the value awarded in an auction, as applicable. These assets are required to be written off one year after their acquisition, if the assets have not been previously disposed of. IFRS requires that assets received in lieu of payment be initially accounted for at fair value. Subsequently, asset valuation depends on the classification provided by the entity for that type of asset. No deadline is established for charging-off an asset.

Goodwill and Intangible Assets

With respect to goodwill and intangible assets, the Compendium provides that:

- The value of "goodwill" and other depreciable intangible assets will be supported by two reports issued by specialists independent from the (i) bank, (ii) the bank's external auditors, and (iii) each other.

With respect to goodwill and intangible assets, IFRS provides that:

- The use of independent experts' valuations is not mandatory.

Since we have no goodwill, we do not believe that this difference impacts our financial statements.

Fair Value Option with Respect to Financial Assets and Liabilities

According to the Compendium, banks are not allowed to value assets or liabilities at their fair value in place of the amortized cost method.

IFRS allows an entity to designate a financial asset or liability (or a group of financial assets or liabilities, or both), on initial recognition as one to be measured at fair value, with changes in fair value to be recognized in profit or loss. Once this option has been taken, it is irrevocable. The fair value option is not applicable to investments in capital instruments which do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

We do not believe that this difference impacts our financial statements because this accounting treatment is optional.

Loan loss allowances

The main difference between Chilean bank GAAP and IFRS regarding loan loss allowances is that under Chilean Bank GAAP, we use an expected loss model, and under IFRS, we use an incurred loss approach. Additionally, Chilean Bank GAAP includes the following norms, which are not included in our IFRS loan loss allowance:

On December 29, 2009, the SBIF issued Circular No. 3,489, which incorporates changes to several provisions of the Compendium. Among other changes, it states that effective January 2010, companies must complement the basis on which insolvency provisions related to contingent operations are determined, including unrestricted lines of credit, other contingent loans, and other loan commitments. In addition, companies should also apply the changes in risk exposure applicable to contingent loans, found in Chapter B-3 of the Compendium. According to specific instructions from the SBIF in Letter to Management No. 10 dated December 21, 2010, the SBIF stated that it would not be necessary to calculate the adjustment retrospectively for 2009. On June 10, 2010, the SBIF issued Circular No. 3,502 which, among other things, requires that Banks maintain a 0.5% minimum provision for the non-impaired part of the loan portfolio analyzed on an individual basis. In addition, on December 21, 2010, in the Letter to Management No. 9, the SBIF specified that the accounting treatment for the effects originating from the application of this minimum provision is to record it in the income for the period. However, the Bank reverses this minimum provision for purposes of its IFRS consolidated financial statements.

On August 12, 2010, Circular No. 3,503 was issued, which modified how we must classify loans included in Chapters B-1, B-2, B-3 and C1 of the Compendium of Accounting Standards, which are loans analyzed on an individual basis. Such modifications were effective from January 1, 2011, except for those modifications relating to additional provisions included in the Letter to Management No. 9 relating to Chapter B-1 which took effect in 2010. As a supplement to the Circular, the Letter to Management No. 9 was issued on December 21, 2010, which specifies that adjustments resulting from the adoption of these modifications starting on January 1, 2011 could be recorded during the first quarter of 2011; however, entities may anticipate recognition of the impact of these adjustments, in whole or in part, in 2010. As of December 31, 2010, we have chosen to recognize the entire provision adjustments aforementioned.

On December 30, 2014, the SBIF published new guidelines for provisioning a bank's residential mortgage loan portfolio. The regulations include:

- an expected loss model to calculate allowances for housing mortgage loans that explicitly considers loan delinquency and loan / collateral (LTV) ratios, in order to promote active management of credit risk; and

- proposal for a new way of evaluating collateral in the context of determining provisions, which would specify certain required conditions that would need to be met by an asset in order for it to be eligible to be used as collateral for mitigating credit risk, as well as more specific requirements of how collateral would be valued for purposes of setting loan loss levels.

These above changes have been implemented in 2016. We also expect the SBIF in 2016 to publish new expected loss models for consumer and commercial loans assessed on a group basis.

Capital Markets

Under the General Banking Law, banks in Chile may purchase, sell, place, underwrite and act as paying agents with respect to certain debt securities. Likewise, banks in Chile may place and underwrite certain equity securities. Bank subsidiaries may also engage in debt placement and dealing, equity issuance advice and securities brokerage, as well as in financial leasing, mutual fund and investment fund administration, investment advisory services and

merger and acquisition services. These subsidiaries are regulated by the SBIF and, in some cases, also by the Superintendency of Securities and Insurance, the regulator of the Chilean securities market, open-stock corporations and insurance companies.

Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Law provides that if specified adverse circumstances exist at any bank, its Board of Directors must correct the situation within 30 days from the date of receipt of the relevant financial statements. If the Board of Directors is unable to do so, it must call a special shareholders' meeting to increase the capital of the bank by the amount necessary to return the bank to financial stability. If the shareholders reject the capital increase, or if it is not effected within the term and in the manner agreed to at the meeting, or if the SBIF does not approve the Board of Directors' proposal, the bank will be barred from increasing its loan portfolio beyond that stated in the financial statements presented to the Board of Directors and from making any further investments in any instrument other than in instruments issued by the Central Bank. In such a case, or in the event that a bank is unable to make timely payment in respect of its obligations, or if a bank is under provisional administration of the SBIF, the General Banking Law provides that the bank may receive a two-year term loan from another bank. The terms and conditions of such a loan must be approved by the directors of both banks, as well as by the SBIF, but need not be submitted to the borrowing bank's shareholders for their approval. In any event, a creditor bank cannot grant interbank loans to an insolvent bank in an amount exceeding 25.0% of the creditor bank's regulatory capital. The Board of Directors of a bank that is unable to make timely payment of its obligations must present a reorganization plan to its creditors in order to capitalize the credits, extend their respective terms, condone debts or take other measures for the payment of the debts. If the Board of Directors of a bank submits a reorganization plan to its creditors and such arrangement is approved, all subordinated debt issued by the bank, whether or not matured, will be converted by operation of law into common stock in the amount required for the ratio of regulatory capital to risk-weighted assets to be not lower than 12.0%. If a bank fails to pay an obligation, it must notify the SBIF, which shall determine if the bank is solvent.

Dissolution and Liquidation of Banks

The SBIF may establish that a bank should be liquidated for the benefit of its depositors or other creditors when such bank does not have the necessary solvency to continue its operations. In such case, the SBIF must revoke a bank's authorization to exist and order its mandatory liquidation, subject to agreement by the Central Bank. The SBIF must also revoke a bank's authorization if the reorganization plan of such bank has been rejected twice. The resolution by the SBIF must state the reason for ordering the liquidation and must name a liquidator, unless the SBIF assumes this responsibility. When a liquidation is declared, all checking accounts and other demand deposits received in the ordinary course of business, are required to be paid by using existing funds of the bank, its deposits with the Central Bank or its investments in instruments that represent its reserves. If these funds are insufficient to pay these obligations, the liquidator may seize the rest of the bank's assets, as needed. If necessary and in specified circumstances, the Central Bank will lend the bank the funds necessary to pay these obligations. Any such loans are preferential to any claims of other creditors of the liquidated bank.

Obligations Denominated in Foreign Currencies

Santander-Chile must also comply with various regulatory and internal limits regarding exposure to movements in foreign exchange rates (See “Item 11. Quantitative and Qualitative Disclosures About Market Risk”).

Loans and Investments in Foreign Securities

Under current Chilean banking regulations, banks in Chile may grant loans to foreign individuals and entities and invest in certain securities of foreign issuers. Banks may grant commercial loans and foreign trade loans, and can buy loans granted by banks abroad. Banks in Chile may also invest in debt securities traded in formal secondary markets. Such debt securities must be (1) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (2) bonds issued by foreign companies. If the sum of investment in foreign securities and loans granted outside of Chile surpasses 70% of regulatory capital, the amount that exceeds 70% is subject to a mandatory reserve of 100%.

Table 1

| Rating Agency | Short Term | Long Term |
|---|---|---|
| Moody’s | P2 | Baa3 |
| Standard and Poor’s | A3 | BBB- |
| Fitch | F2 | BBB- |
| Dominion Bond Rating (DBRS) | R-2 | BBB (low) |

In the event that the sum of: (a) loans granted abroad that are not to subsidiaries of Chilean companies, and that have a rating of BB- or less and do not trade on a foreign stock exchange, and (b) the investments in foreign securities which have a rating that is below that indicated in Table 1 above, but is equal to or exceeds the ratings mentioned in the Table 2 below and exceeds 20% (and 30% for banks with a BIS ratio equal or exceeding 10% of the regulatory capital of such bank), the excess is subject to a mandatory reserve of 100%.

Table 2

| Rating Agency | Short Term | Long Term |
|---|---|---|
| Moody’s | P2 | Ba3 |
| Standard and Poor’s | A-2 | BB- |
| Fitch | F2 | BB- |
| Dominion Bond Rating (DBRS) | R-2 | BB (low) |

In addition, banks may invest in foreign securities whose ratings are equal or exceeds those mentioned in Table 3 below for an additional amount equal to 70% of their regulatory capital. This limit constitutes an additional margin and is not subject to the 100% mandatory reserve.

Additionally, a Chilean bank may invest in foreign securities whose rating is equal to or exceeds those mentioned in Table 3 below in: (i) demand deposits with foreign banks, including overnight deposits in a single entity; and (ii) securities issued or guaranteed by sovereign states or their central banks or securities issued or guaranteed by foreign entities within the Chilean State, though investment will be subject to the limits by issuer up to 30% and 50%, respectively, of the regulatory capital of the Chilean bank that makes the investment. If these foreign securities do not have a rating, the individual limit will be 10% of regulatory capital.

Table 3

| Rating Agency | Short Term | Long Term |
|---|---|---|

| | | |
|---|---|---|
| Moody’s | P1 | Aa3 |
| Standard and Poor’s | A1+ | AA- |
| Fitch | F1+ | AA- |
| DBRS | R-1 (high) | AA(low) |

Moreover, the sum of all demand deposits with foreign banks, including overnight deposits to related parties, as defined by the Central Bank and the SBIF, cannot surpass 25% of a bank’s regulatory capital. This limit excludes foreign branches of Chilean banks or their subsidiaries, but must include amounts deposited by these entities in related parties abroad.

Chilean banks may only invest in equity securities of foreign banks and certain other foreign companies which may be affiliates of the bank or which would be complementary to the bank’s business if such companies were incorporated in Chile.

“Mortgage Bonds”

In 2012, the mortgage-covered bond legislation was approved by the Chilean Congress. These bonds, known as “mortgage bonds,” are debt backed by the company that sells them, as well as by a pool of mortgages that in the event of insolvency the pool of mortgages are auctioned with the corresponding mortgage bond. Unlike covered bonds, they are not be limited to banks. These bonds, if bought by banks, are available for immediate liquidity in the

Central Bank liquidity window and have other restrictions as to the type of mortgage they will be funding, *i.e.* mortgage loans with loan-to-values of maximum 80%.

U.S. Banking Regulation - Volcker Rule

On July 21, 2010, the United States enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which provides a broad framework for significant regulatory changes that extend to almost every area of U.S. financial regulation. Within the Dodd-Frank Act, the Volcker Rule prohibits "banking entities" from engaging in certain forms of proprietary trading or from sponsoring, investing in or entering into certain credit-related transactions with related covered funds, in each case subject to certain limited exceptions. The term "covered fund" is defined very broadly to include traditional hedge funds, private equity funds, certain securitization vehicles and other entities that must rely on Section 3(c)(1) or 3(c)(7) of the U.S. Investment Company Act of 1940 for an exemption under that Act, as well as certain similar foreign funds. The Volcker Rule became effective in July, 2012 and in December, 2013 U.S. regulators issued final rules implementing the Volcker Rule. The statute and final rules also contain exclusions and certain exemptions for market-making, hedging, underwriting, trading in U.S. government and agency obligations as well as certain foreign government obligations, and trading solely outside the United States, and also permit certain ownership interests in certain types of funds to be retained. Banking entities such as Banco Santander Parent must bring their activities and investments worldwide into compliance with the requirements of the Volcker Rule by the end of the conformance period applicable to each requirement.

In general, all banking entities were required to conform to the requirements of the Volcker Rule, except for provisions related to certain funds, and to implement a compliance program by July 21, 2015. In December 2014, the Federal Reserve Board issued an order extending the Volcker Rule's general conformance period until July 21, 2016 for investments in and relationships with covered funds and certain foreign funds that were in place on or prior to December 31, 2013 ("legacy covered funds"), and stated its intention to grant a final one-year extension of the general conformance period, to July 21, 2017, for banking entities to conform ownership interests in and relationships with legacy covered funds. This extension of the conformance period does not apply to the July 21, 2015 imposition of the Volcker Rule's prohibitions on proprietary trading or to any investments in and relationships with covered funds put in place after December 31, 2013. Banco Santander Parent, including Santander Chile, has assessed how the final rules implementing the Volcker Rule affect the group's businesses and has adopted or is in the process of adopting the necessary measures to bring its activities into compliance with the rules and the applicable conformance period.

U.S. Anti-Money Laundering, Anti-Terrorist Financing, and Foreign Corrupt Practices Act Regulations

The Bank, as a foreign private issuer whose securities are registered under the U.S. Securities Exchange Act of 1934, is subject to the U.S. Foreign Corrupt Practices Act (the "FCPA"). The FCPA generally prohibits such issuers and their directors, officers, employees and agents from using any means or instrumentality of U.S. interstate commerce in furtherance of any offer or payment of money to any foreign official or political party for the purpose of influencing a decision of such person in order to obtain or retain business. It also requires that the issuer maintain books and records and a system of internal accounting controls sufficient to provide reasonable assurance that accountability of assets is

maintained and accurate financial statements can be prepared. Penalties, fines and imprisonment of the Bank's officers and/or directors can be imposed for violations of the FCPA.

Furthermore, the Bank is subject to a variety of U.S. anti-money laundering and anti-terrorist financing laws and regulations, such as the Bank Secrecy Act of 1970, as amended, and the USA PATRIOT ACT of 2001, as amended, and a violation of such laws and regulations may result in substantial penalties, fines and imprisonment of the Bank's officers and/or directors.

Disclosure pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act

Santander-Chile has no exposure to Iran or Syria. As we are part of Grupo Santander, we must disclose the exposure of other entities of the Group to Iran and Syria.

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), an issuer is required to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with individuals or entities designated pursuant to

certain Executive Orders. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law.

The following activities are disclosed in response to Section 13(r) with respect to affiliates of Santander UK within the Santander Group. During the period covered by this annual report:

(a) Santander UK holds frozen savings accounts and one current account for two customers resident in the U.K. who are currently designated by the U.S. for terrorism. The accounts held by each customer were blocked after the customer's designation and have remained blocked and dormant throughout 2015. Revenue generated by Santander UK on these accounts is negligible.

(b) An Iranian national, resident in the U.K., who is currently designated by the U.S. under the Iranian Financial Sanctions Regulations and the Non-Proliferation of Weapons of Mass Destruction ("NPWMD") designation, holds a mortgage with Santander UK that was issued prior to any such designation. No further drawdown has been made (or would be allowed) under this mortgage although we continue to receive repayment instalments. In 2015, total revenue in connection with the mortgage was approximately £3,876 while net profits were negligible relative to the overall profits of Santander UK. Santander UK does not intend to enter into any new relationships with this customer, and any disbursements will only be made in accordance with applicable sanctions. The same Iranian national also holds two investment accounts with Santander ISA Managers Limited. The funds within both accounts are invested in the same portfolio fund. The accounts have remained frozen during 2015. The investment returns are being automatically reinvested, and no disbursements have been made to the customer. Total revenue for the Santander Group in connection with the investment accounts was approximately £188 while net profits in 2015 were negligible relative to the overall profits of Santander Spain.

(c) During the third quarter of 2015 two additional Santander UK customers were designated. A UK national is designated by the U.S. under the Specially Designated Global Terrorist ("SDGT") sanctions program and is on the U.S. Department of the Treasury's Office of Foreign Assets Control's Specially Designated Nationals and Blocked Persons ("SDN") List. This customer holds a bank account which generated revenue of approximately £180 during the third and fourth quarter of 2015. The account is blocked. Net profits in the third and fourth quarter of 2015 in connection with this account were negligible relative to the overall profits of Santander Spain. A second UK national is designated by the U.S. under the SDGT sanctions program and is on the U.S. SDN List. No transactions were made in the third and fourth quarter of 2015 and his account is blocked and in arrears.

(d) In addition, during the fourth quarter of 2015, Santander UK has identified one additional customer. A UK national is designated by the U.S. under the SDGT sanctions program and is on the U.S. SDN List. The customer holds a bank account which generated negligible revenue during the fourth quarter of 2015. The account was closed during the fourth quarter of 2015. Net profits in the fourth quarter of 2015 were negligible relative to the overall profits of Santander Spain.

In addition, the Santander Group has an outstanding legacy export credit facility with Bank Mellat, which was in the U.S. SDN List at December 31, 2015. In 2005, Santander Spain participated in a syndicated credit facility for Bank Mellat of €15.5 million, which matured on July 6, 2015. As of December 31, 2015, the Santander Group was owed €0.3 million not paid at maturity under this credit facility and 95% covered by official export credit agencies.

Santander Spain has not been receiving payments from Bank Mellat under this or other credit facilities in recent years. Santander Spain has been and expects to continue to be repaid any amounts due by official export credit agencies. No funds have been extended by Santander Spain under this facility since it was granted.

The Santander Group also has certain legacy performance guarantees for the benefit of Bank Sepah and Bank Mellat (stand-by letters of credit to guarantee the obligations – either under tender documents or under contracting agreements – of contractors who participated in public bids in Iran) that were in place prior to April 27, 2007. However, should any of the contractors default in their obligations under the public bids, the Santander Group would need prior approval from the Spanish Government to pay any amounts due to Bank Sepah or Bank Mellat pursuant to Council Regulation (EU) No. 2015/1861.

In the aggregate, all of the transactions described above resulted in approximately €15,000 gross revenues and approximately €77,000 net loss to the Santander Group in 2015, all of which resulted from the performance of export credit agencies rather than any Iranian entity. The Santander Group has undertaken significant steps to withdraw from the Iranian market such as closing its representative office in Iran and ceasing all banking activities therein, including correspondent relationships, deposit taking from Iranian entities and issuing export letters of credit, except for the legacy transactions described above. The Santander Group is not contractually permitted to cancel these arrangements without either (i) paying the guaranteed amount – which payment would be subject to prior approval (in the case of the performance guarantees), or (ii) forfeiting the outstanding amounts due to it (in the case of the export credits). As such, the Santander Group intends to continue to provide the guarantees and hold these assets in accordance with company policy and applicable laws.

C. Organizational Structure

Santander Spain controls Santander-Chile through its holdings in Teatinos Siglo XXI Inversiones S.A. and Santander Chile Holding S.A. which are controlled subsidiaries. Santander Spain control over 67.18% of our shares and actual participation when excluding non-controlling interests participating in Santander Chile Holding S.A. of 67.12%.

| Shareholder | Number of Shares | Percentage |
|---|---|---|
| Santander Chile Holding S.A. | 66,822,519,695 | 35.46 |
| Teatinos Siglo XXI Inversiones S.A. | 59,770,481,573 | 31.72 |

The chart below sets forth the names and areas of responsibility of our senior managers as of April 2016.

**D.Property, Plant and Equipment**

We are domiciled in Chile and own our principal executive offices located at Bandera 140, 20th floor, Santiago, Chile. We also own twelve other buildings in the vicinity of our headquarters, and we rent six other buildings. At December 31, 2015, we owned the locations at which 23% of our branches were located. The remaining branches operate at rented locations. We believe that our existing physical facilities are adequate for our needs.

| **Main properties as of December 31, 2015** | **Number** |
|---|---|
| **Central Offices** | |
| Owned | 4 |
| Rented | 6 |

| | |
|---|---|
| Total | 10 |
| **Branches(1)** | |
| Owned | 110 |
| Rented | 362 |
| Total | 472 |
| **Other property(2)** | |
| Owned | 77 |
| Rented | 36 |
| Total | 113 |

(1) Some branches are located inside central office buildings and other properties. Including these branches, the total number of branches is 472. Special payment centers are included in Other property.

(2) Consists mainly of parking lots, mini-branches and property owned by our subsidiaries.

The following table sets forth a summary of the main computer hardware and other systems-equipment that we own.

| **Category** | **Brand** | **Application** |
|---|---|---|
| Mainframe | IBM | Back-end, Core-System Altair, Payment means and foreign trade. |
| Midrange | IBM | Interconnections between Mainframe and mid-range |
| Midrange | SUN/Unix | Interconnections applications Credit & debit cards |
| | SUN/UNIX | Treasury, MIS, Work Flow, Accounting |
| Midrange | IBM | WEB |
| Desktop | HP/Lenovo | Platform applications |
| Call Center | Avaya | Telephone system |
| | Genesys | Integration Voice/data |
| | Nice | Voice recorder |
| | Nortel | IVR |

The main software systems that we use are:

| **Category** | **Product** | **Origin** |
|---|---|---|
| Core-System | ALTAIR | Accenture |
| Data base | DB2 | IBM |
| Data base | Oracle | Oracle |
| Data base | SQL Server | Microsoft |
| WEB Service | Internet Information Server | Microsoft |
| Message Service | MQSeries | IBM |
| Transformation | MQIntegrator | IBM |

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Accounting Standards Applied in 2015

Santander-Chile is a Chilean bank and maintains its financial books and records in Chilean pesos and prepares its consolidated financial statements in accordance with IFRS-IASB in order to comply with requirements of the SEC. As required by the General Banking Law, which subjects Chilean banks to the regulatory supervision of the SBIF, and which mandates that Chilean banks abide by the accounting standards stipulated by the SBIF, our locally-filed consolidated financial statements have been prepared in accordance with Chilean Bank GAAP as issued by the SBIF. The accounting principles issued by the SBIF are substantially similar to IFRS but there are some exceptions, as described in Item 4. Therefore, our locally-filed consolidated financial statements have been adjusted according to IFRS as issued by the IASB.

Santander-Chile's transition date to IFRS was January 1, 2008. The Bank prepared its opening balance under these standards as of such date. Consequently, the date of adoption of the new standards by the Bank and its subsidiaries was January 1, 2009.

Critical Accounting Policies

Our consolidated financial statements include various estimates and assumptions, including but not limited to the adequacy of the allowance for loan losses, estimates of the fair value of certain financial instruments and the selection of useful lives of certain assets.

We evaluate these estimates and assumptions on an ongoing basis. Management bases its estimates and assumptions on historical experience and on various other factors that it believes to be reasonable under the circumstances. Actual results in future periods could differ from those estimates and assumptions, and if these differences were significant enough, our reported results of operations would be affected materially. We believe that the following are the most critical judgment areas or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations.

Allowance for loan losses

The Bank records its allowances following its internal models for the recording of incurred debt. These models have been approved by the Board. To establish impairment losses, the Bank carries out an evaluation of outstanding loans

and accounts receivable from customers, as detailed below:

- Individual assessment of debtors: when debtors are recorded as individually significant, *i.e.*, when they have significant debt levels or, even for those that do not have these levels, could be classified in a group of financial assets with similar credit risk features and who, due to the size, complexity or level of exposure, require detailed information. See “Item 5. Operating and Financial Review and Prospects— C. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio—Credit Approval: Loans approved on an individual basis” and “Note 1—Summary of Significant Accounting Policies—(p) Provisions for loan losses” of our Audited Consolidated Financial Statements.

- Group assessment of debtors: when there is no evidence of impairment for individually-assessed debtors and debtors with loans grouped collectively—whether or not significant—the Bank groups debtors with similar risk credit features and assesses them for impairment. Debtors individually assessed for impairment and for whom a loss due to impairment has been recorded, are not included in the group assessment of impairment. See “Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio—Credit Approval: Loans approved on a group basis” and “Note 1—Summary of Significant Accounting Policies—(p) Provisions for loan losses” of our Audited Consolidated Financial Statements.

Derivative activities

Derivatives are measured at fair value on the statement of financial position and the net unrealized gain (loss) on derivatives is classified as a separate line item within the income statement. Under IFRS, banks must mark-to-market derivatives. A derivative financial instrument held for trading purposes must be marked to market and the

unrealized gain or loss must be recognized in the income statement. The Bank recognizes three kinds of hedge accounting: (i) cash flow hedges, (ii) fair value hedges and (iii) hedging of foreign net investments.

- When a cash flow hedge exists, the fair value movements on the part of the hedging instrument and the hedged item that is effective are recognized in other comprehensive income as "valuation adjustments". Any ineffective portion of the fair value movement on the hedging instrument is recognized in the income statement.

- When a fair value hedge exists, the fair value movements on the hedging instrument and the fair value movements on the hedged item attributable to the hedged risk are recognized in the income statement.

- When a hedge of net investment in a foreign operation exists, as defined in IAS 21, it is accounted for similarly to a cash flow hedge. Any ineffective portion of the fair value movement on the hedging instrument is recognized in the income statement.

A. Operating Results

Chilean Economy

All of our operations and substantially all of our customers are located in Chile. Accordingly, our financial condition and results of operations are substantially dependent upon economic conditions prevailing in Chile. In 2015, the Chilean economy grew approximately 2.1% compared to 1.9% in 2014 and 4.0% in 2013. In the same period, internal demand increased 1.8% compared to a decrease of 0.3% in 2014 and increase of 3.6% in 2013. The growth of internal demand was led by growth of total consumption, which was up 5.8% while investment decreased 1.5% in 2015 compared to 2014. The reduction of investments was mainly due to a fall in investments in the mining sector due to concerns regarding global economic growth, especially growth in China.

As of December 2015, the unemployment rate was 5.8% compared to 6.0% in 2014 and 5.7% in 2013. The exchange rate depreciated in 2015 by 16.5% and by 16.0% in 2014. As a result of this depreciation of the peso, CPI inflation reached 4.4% in 2015 compared to 4.7% in 2014 and 3.0% in 2013. As a result of high inflation rates in 2014 and 2015, the Central Bank commenced a process of gradually raising interest rates despite low economic growth. At year-end 2014, the policy rate was 3.0% and this was increased to 3.50% by year-end 2015. Going forward, economic activity is expected to continue to increase, but with continued uncertainty regarding global growth, especially in growth in China, which impacts Chile's mining sector, and internal political issues.

The growth of the Chilean banking sector evolved in line with overall economic developments, with an increase in the volume of loans and deposits. Total loans as of December 31, 2015 in the Chilean financial system were Ch$132,665,321 million (US$187 billion), excluding loans held by subsidiaries of Chilean banks abroad, grew 8.3% in the last twelve months. Total customer deposits (defined as time deposits plus checking accounts), excluding loans

held by subsidiaries of Chilean banks abroad grew 5.9% in 2015 compared to 2014 and totaled Ch$106,326,269 million (US$150 billion) as of December 31, 2015. The non-performing loan (defined as loans with an installment that is at least 90 days past-due) to total loans ratio decreased to 1.9% at year-end 2015 compared to 2.1% in 2014.

*Impact of inflation*

Our assets and liabilities are denominated in Chilean pesos, Unidades de Fomento (UF) and foreign currencies. The Bank no longer recognizes inflation accounting and has eliminated price-level restatement in line with IFRS, but inflation impacts our results of operations as some loan and deposit products are contracted in UF. The UF is revalued in monthly cycles. Each day in the period beginning on the tenth day of the current month through the ninth day of the succeeding month, the nominal peso value of the UF is indexed up (or down in the event of deflation) in order to reflect a proportionate amount of the change in the Chilean Consumer Price Index during the prior calendar month. One UF equaled Ch$25,629.09 at December 31, 2015, Ch$24,627.10 at December 31, 2014 and Ch$23,309.56 at December 31, 2013. High levels of inflation in Chile could adversely affect the Chilean economy and could have an adverse effect on our business, financial condition and results of operations. Negative inflation rates also negatively impact our results. Inflation measured as the annual variation of the UF was 4.1% in 2015, 5.7% in 2014 and 2.1% in 2013. There can be no assurance that Chilean inflation will not change significantly from the current level. Although we currently benefit from moderate levels of inflation, due to the current structure of our assets and liabilities (i.e., a significant portion of our loans are indexed to the inflation rate, but there are no

corresponding features in deposits or other funding sources that would increase the size of our funding base), there can be no assurance that our business, financial condition and result of operations in the future will not be adversely affected by changing levels of inflation. In summary:

- *UF-denominated assets and liabilities*. The effect of any changes in the nominal peso value of our UF-denominated interest earning assets and interest bearing liabilities is reflected in our results of operations as an increase (or decrease, in the event of deflation) in interest income and expense, respectively. Our net interest income will be positively affected by an inflationary environment to the extent that our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities. Our net interest income will be positively affected by deflation in any period in which our average UF-denominated interest bearing liabilities exceed our average UF-denominated interest earning assets. Our net interest income will be negatively affected in a deflationary environment if our average UF-denominated interest earning assets exceed our average UF-denominated interest bearing liabilities.

- *Inflation and interest rate hedge*. A key component of our asset and liability policy is the management of interest rate risk. The Bank's assets generally have a longer maturity than our liabilities. As the Bank's mortgage portfolio grows, the maturity gap tends to rise as these loans, which are contracted in UF, have a longer maturity than the average maturity of our funding base. As most of our long term financial instruments and mortgage loans are contracted in UF and most of our deposits are in nominal pesos, the rise in mortgage lending increases the Bank's exposure to inflation and to interest rate risk. The size of this gap is limited by internal and regulatory guidelines in order to avoid excessive potential losses due to strong shifts in interest rates. In order to keep this duration gap below regulatory limits, the Bank issues long term bonds denominated in UF or interest rate swaps. The financial cost of the bonds and the efficient part of these hedges is recorded as net interest income. In 2015, the loss from the swaps taken in order to hedge mainly for inflation and interest rate risk and included in net interest income totaled a loss of Ch$107,867 million compared to a loss of Ch$130,254 million in 2014 and a loss of Ch$67,239 million in 2013. The average gap between our interest earnings assets and total liabilities linked to the inflation, including hedging was Ch$3,358,707 million in 2015, Ch$4,168,678 million in 2014 and Ch$3,581,959 million in 2013.

- The financial impact of the gap between our interest earning assets and liabilities denominated in UFs including hedges was Ch$130,666 million in 2015, Ch$229,946 million in 2014 and Ch$71,842 million in 2013. The lower gain in 2015 can be explained by the lower UF inflation in 2015 compared to 2014 and a lower UF gap in 2015.

| Impact of inflation on net interest income | As of December 31, 2015 | 2014 | 2013 | % Change 2015/2014 | % Change 2014/2013 |
|---|---|---|---|---|---|
| | (In millions of Ch$) | | | | |
| Results from UF GAP (1) | 130,666 | 229,946 | 71,842 | (43.2 %) | 220.1 % |
| Annual UF inflation | 4.1 % | 5.7 % | 2.1 % | | |

(1) UF GAP is net interest income from asset and liabilities denominated in UFs and include the results from hedging the size of this gap via interest rate swaps.

- *Peso-denominated assets and liabilities*. Interest rates prevailing in Chile during any period primarily reflect the inflation rate during the period and the expectations of future inflation. The sensitivity of our peso-denominated interest earning assets and interest bearing liabilities to changes to such prevailing rates varies. See "Item 5. Operating

and Financial Review and Prospects—A. Operating Results—Interest Rates." We maintain a substantial amount of non-interest bearing peso-denominated demand deposits. Because such deposits are not sensitive to inflation, any decline in the rate of inflation would adversely affect our net interest margin on inflation indexed assets funded with such deposits, and any increase in the rate of inflation would increase the net interest margin on such assets. The ratio of the average of such demand deposits and average shareholder's equity to average interest-earning assets was 29.9%, 30.2%, and 30.0% for the years ended December 31, 2015, 2014 and 2013, respectively.

Interest Rates

Interest rates earned and paid on our assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, changes in short term interest rates set by the Central Bank and movements in long term real rates. The Central Bank manages short term interest rates based on its objectives of balancing low inflation and economic growth. Because our liabilities are generally re-priced sooner than our assets, changes in the rate of inflation or short term rates in the economy are reflected in the rates of interest paid by us on our liabilities before such changes are reflected in the rates of interest earned by us on our assets. Therefore, when short term interest rates fall, our net interest margin is positively impacted, but when short term rates increase, our interest margin is negatively affected. At the same time, our net interest margin tends to be adversely affected in the short term by a decrease in inflation rates since generally our UF-denominated assets exceed our UF-denominated liabilities. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Impact of Inflation—Peso-denominated assets and liabilities." An increase in long term rates has a positive effect on our net interest margin, because our interest earning assets generally have longer terms than our interest bearing liabilities. In addition, because our peso-denominated liabilities have relatively short re-pricing periods, they are generally more responsive to changes in inflation or short term rates than our UF-denominated liabilities. As a result, during periods when or expected inflation exceeds the previous period's inflation, customers often switch funds from UF-denominated deposits to peso-denominated deposits, which generally bear higher interest rates, thereby adversely affecting our net interest margin.

Foreign Exchange Fluctuations

The Chilean government's economic policies and any future changes in the value of the Chilean peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Chilean peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. The Central Bank exchange rate depreciated 16.5% in 2015 and 16.0% in 2014. See "Item 3. Key Information—A. Selected Financial Data—Exchange Rates." A significant portion of our assets and liabilities are denominated in foreign currencies, principally the U.S. dollar, and we historically have maintained and may continue to maintain material gaps between the balances of such assets and liabilities. Our current strategy is not to maintain a significant difference between the balances of our assets and liabilities in foreign currencies. In 2015, 2014 and 2013, the Bank, in its spot position, held more liabilities than assets in foreign currencies, mainly the U.S. dollar, as a result of an ample supply of U.S. dollar deposits from companies that receive export revenues, foreign correspondent bank loans and bonds issued abroad. This difference is usually hedged using forwards and cross-currency swaps. Including derivatives, the Bank seeks to run no foreign currency risk in its non-trading balance sheet. Because such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains and losses realized upon the sale of such assets, are translated to Chilean pesos in preparing our financial statements, our reported income is affected by changes in the value of the Chilean peso relative to foreign currencies (principally the U.S. dollar). The translation gain or loss over assets and liabilities (excluding derivatives held for trading) is included as foreign exchange transactions in the income statement. The translation and mark-to-market of foreign currency derivatives held for trading is recognized as a gain or loss in the net results from mark-to-market and trading. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Foreign exchange fluctuations" for more detail on the Bank's exposure to foreign currency.

The Bank also uses a sensitivity analysis with both internal limits and regulatory limits to seek to manage the potential loss in net interest income resulting from fluctuations of interest rates on U.S. dollar denominated assets and liabilities and a VaR model to limit foreign currency trading risk.

We also set an absolute limit on the size of Santander-Chile's consolidated net foreign currency trading position. At December 31, 2015, the Bank's consolidated net foreign currency position was equal to US$81.4 million. As the Bank's non-trading portfolio has no net exposure to foreign currency risk, the Bank's total exposure to foreign currency is reflected in the trading portfolio exposure to foreign currency. The Bank's average exposure to foreign currency was US$42 million in 2015. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—Volume limits." The limit on the size of the net foreign currency position is determined by the Asset and Liability Committee and is calculated and monitored by our Market Risk and Control Department.

Segmentation criteria

The accounting policies used to determine the Bank's income and expenses by reporting segment are the same as those described in the summary of accounting policies in "Note 1—Summary of Significant Accounting Policies" of the Bank's Consolidated Financial Statements, and are customized to meet the needs of the Bank's management. The Bank earns most of its income in the form of interest income, fee and commission income and income from financial operations.

To evaluate a segment's financial performance and make decisions regarding the resources to be assigned to segments, the Chief Operating Decision Maker (CODM) bases his assessment on the segment's interest income, fee and commission income, and expenses. Due to changes aimed at improving relations with its customers, streamlining processes and saving costs, the Bank has simplified its internal structure in 2015. For this reason, the disclosure has been simplified to reflect how the Bank is currently managed. The Bank's reporting segments have three Chief Operating Decision Makers: (i) Director of Retail banking, (ii) the Director of the Middle-market segment and (iii) the Director of Global corporate banking, each of which report to our Chief Executive Officer. All reporting segment information is presented following this structure.

Due to changes aimed at allocating customers to the segment best capable of servicing them and streamlining processes, the Bank has modified its internal structure in 2015. This change in composition of the segments resulted in the following:

- commissions paid in "Net fee and commission income "were reassigned among segments to more appropriately reflect the distributions in accordance with the management of each segment;

- the effects of changes in foreign exchange rates of provisions were reallocated to the line item "Other" to more appropriately reflect the effects directly attributable to the respective segments; and

- the improvement of the allocation of interest costs at the time of placement of the loan.

Under IFRS 8, the Bank has aggregated operating segments with similar economic characteristics according to the aggregation criteria specified in the standard. A reporting segment consists of clients that are offered differentiated but, considering how their performance is measured, homogenous services based on IFRS 8 aggregation criteria, thus they form part of the same reporting segment. Overall, this aggregation has no significant impact on the understanding of the nature and effects of the Bank's business activities and the economic environment. The information relating to 2014 and 2013 has been prepared using the above-mentioned current criteria so that the figures presented are comparable.

The Bank’s reportable segments are (i) Retail banking, (ii) Middle-market, (iii) Global Corporate Banking and (iv) Corporate Activities (“Other”).

Results of Operations for the Years Ended December 31, 2015, 2014 and 2013

The following discussion is based upon and should be read in conjunction with the Audited Consolidated Financial Statements. The Audited Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB. The following table sets forth the principal components of our net income for the years ended December 31, 2015, 2014 and 2013.

| CONSOLIDATED INCOME STATEMENT DATA | 2015 (ThU.S.$)(1) | 2015 (Ch$ million) | 2014 | 2013 | % Change 2015 / 2014 | % Change **2014 / 2013** |
|---|---|---|---|---|---|---|
| IFRS: | | | | | | |
| Interest income and expense | | | | | | |
| Interest income | 2,947,143 | 2,085,988 | 2,227,018 | 1,871,204 | (6.3 %) | 19.0 % |
| Interest expense | (1,173,752) | (830,782) | (909,914) | (794,442) | (8.7 %) | 14.5 % |
| Net interest income | 1,773,391 | 1,255,206 | 1,317,104 | 1,076,762 | (4.7 %) | 22.3 % |
| Fees and income from services | | | | | | |
| Fees and commission income | 569,229 | 402,900 | 366,729 | 346,120 | 9.9 % | 6.0 % |
| Fees and commission expense | (233,502) | (165,273) | (139,446) | (116,284) | 18.5 % | 19.9 % |
| Total net fees and commission income | 335,727 | 237,627 | 227,283 | 229,836 | 4.6 % | (1.1 %) |
| Financial transactions, net | | | | | | |
| Net income (expense) from financial operations | (646,930) | (457,897) | (159,647) | (20,289) | 186.8% | 686.9 % |
| Net foreign exchange gain (loss) | 852,495 | 603,396 | 272,212 | 144,726 | 121.7% | 88.1 % |
| Financial transactions, net | 205,565 | 145,499 | 112,565 | 124,437 | 29.3 % | (9.5 %) |
| Other operating income | 9,097 | 6,439 | 6,545 | 88,155 | (1.6 %) | (92.6 %) |
| Net operating profit before provision for loan losses | 2,323,780 | 1,644,771 | 1,663,497 | 1,519,190 | (1.1 %) | 9.5 % |
| Provision for loan losses | (564,110) | (399,277) | (354,903) | (371,462) | 12.5 % | (4.5 %) |
| Net operating profit | 1,759,670 | 1,245,494 | 1,308,594 | 1,147,728 | (4.8 %) | 14.0 % |
| Operating expenses | | | | | | |
| Personnel salaries and expenses | (546,854) | (387,063) | (338,888) | (308,344) | 14.2 % | 9.9 % |
| Administrative expenses | (311,572) | (220,531) | (205,149) | (188,191) | 7.5 % | 9.0 % |
| Depreciation and amortization | (75,747) | (53,614) | (44,172) | (61,074) | 21.4 % | (27.7 %) |
| Impairment of property, plant and equipment | (30) | (21) | (36,664) | (244) | (99.9 %) | 14,926.2% |
| Other operating expenses | (82,974) | (58,729) | (58,946) | (52,338) | (0.4 %) | 12.6 % |
| Total operating expenses | (1,017,177) | (719,958) | (683,819) | (610,191) | 5.3 % | 12.1 % |
| Net Operating income | 742,493 | 525,536 | 624,775 | 537,537 | (15.9 %) | 16.2 % |
| Income from investments in associates and other companies | 3,656 | 2,588 | 2,165 | 1,422 | 19.5 % | 52.3 % |
| Income before tax | 746,149 | 528,124 | 626,940 | 538,959 | (15.8 %) | 16.3 % |
| Income tax expense | (107,933) | (76,395) | (51,050) | (94,530) | 49.6 % | (46.0 %) |
| Consolidated Net income for the year | 638,216 | 451,729 | 575,890 | 444,429 | (21.6 %) | 29.6 % |
| Net income for the year attributable to: | | | | | | |
| Equity holders of the Bank | 633,606 | 448,466 | 569,910 | 442,294 | (21.3 %) | 28.9 % |
| Non-controlling interests | 4,610 | 3,263 | 5,980 | 2,135 | (45.4 %) | 180.1 % |

(1) Amounts stated in U.S. dollars at and for the year ended December 31, 2015 have been translated from Chilean pesos at the exchange rate of Ch$707.80 = U.S.$1.00 as of December 31, 2015. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates” for more information on exchange rate.

*Results of operations for the years ended December 31, 2015 and 2014*. Consolidated net income for the year ended December 31, 2015 decreased 21.6% to Ch$451,729 million. Our return on annualized average equity was 16.0% in 2015 compared to 21.0% in 2014.

In 2015, *net operating profit before loan losses* was Ch$1,644,771 million, a decrease of 1.1% compared to 2014. Our net interest income decreased 4.7% to Ch$1,255,206 million in 2015 compared to 2014. Our net interest margin decreased to 4.40% in 2015 from 4.92% in 2014. Net interest margins were negatively affected by the lower UF inflation rate in 2015 compared to 2014.

*Net fees and commission income* increased 4.6% to Ch$237,627 million in the twelve-month period ended December 31, 2015 compared to the same period in 2014. In 2015, the Bank continued to experience positive client base and product usage growth. This has driven growth of fees in Retail banking that rose 8.8% in 2015 and the Middle-market segment in which fees increased 5.5% in the period being analyzed. This was partially offset by the 31.8% decrease in fees from Global corporate banking which were negatively affected by the slower economic growth environment that lowered investment banking revenue.

*Total financial transactions, net*, which is the sum of net income from financial operations and foreign exchange gain (loss), totaled Ch$145,499 million in the year ended December 31, 2015, an increase of 29.3% compared to the same period in 2014. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well the results of our non-client treasury operations, mainly the Financial Management Division. The results from our Client treasury business were flat compared to 2014 and totaled Ch$83,845 million. The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. In 2015, the results from Santander Global Connect increased 20.2%. The depreciation of the peso and higher market volatility led to a larger demand for hedging from our Corporate and Middle-market clients, driving this income line. The results from market-making with client services decreased 31.0% in 2014, mainly due to lower business volumes of tailor-made treasury services sold to specific corporate clients.

Results from non-client treasury income in 2015 increased 114.6% and totaled Ch$61,654 million. This higher result was mainly due to larger realized gains from the available for sale portfolio. The results from our available for sale portfolio increased 241.1% in 2015 compared to 2014 and totaled Ch$23,655 million. This higher gain arose from the decline in long-term interest rates, especially in the first quarter of 2015.

*Other operating income* totaled a gain of Ch$6,439 million in the year ended December 31, 2015, a 1.6% decrease compared to 2014. The main reasons for this decrease was lower income received from assets received in lieu of payment which decreased 12.7%.

*Provisions for loan losses, net of recoveries* totaled Ch$399,277 million in 2015 and increased 12.5% compared to the amount of provisions recorded in 2014. Provision for loan losses totaled Ch$454,462 million in 2015 compared to Ch$403,069 million in 2014 and increased 12.8%.

Provisions established for the Bank's consumer loans increased by 27.8% to Ch$230,811 million in 2015 compared to 2014. This rise was mainly due to the release of consumer provisions of Ch$26,563 million during the second half of 2014 as a result of a re-calibration of the allowances model for consumer loans. Excluding this effect in 2014, consumer loan loss provisions grew 11.4%. This rise was mainly due to: (i) consumer loan growth, which reached 5.9% year over year in 2015 compared to 2014, and (ii) greater charge-offs of consumer loans assessed on a group basis. In light of lower economic growth, the Bank restricted renegotiations of consumer loans for customers presenting payment difficulties and this resulted in higher charge-offs.

Provision expense in commercial lending decreased 3.1% in 2015 compared to 2014. During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for commercial loans analyzed on a group basis. This resulted in the recognition of Ch$45,141 million in provisions for our commercial loan book in 2014. Excluding this impact, provisions for commercial loans grew 24.6% in the period being analyzed. This rise was mainly due to higher provisions in Global corporate banking as the Bank

downgraded various corporate clients affected by the slower economic environment, but which have not yet entered non-performing status. On the other hand, improvements in asset quality of middle-market and SME customers in the retail banking segment led to an improvement in commercial NPLs and impaired loans. The total NPL ratio in commercial loans decreased from 3.0% in 2014 to 2.6% in 2015 mainly due to improvements in asset quality of the middle-market customers and SMEs in the retail banking segment. The impaired commercial loan ratio reached 7.1% in 2015 compared to 7.2% at year-end 2014 due to improvements in asset quality among SME clients in retail banking.

Provisions for mortgage loans increased 48.1% in 2015 compared to 2014. This rise was mainly due to: (i) mortgage loan growth, which increased 17.8% in the period being analyzed, and (ii) greater charge-offs of mortgage loans. In light of lower economic growth, the Bank has been restricting the renegotiations of mortgage loans for customers presenting payment difficulties and this resulted in higher charge-offs. This is also leading to higher recoveries, which in the case of mortgage loans, increased 27.7% in 2015 compared to 2014. The Bank also focused mortgage loan growth on higher income earners that in general are less risky. As a result of the change in the loan mix and the higher charge-offs, mortgage loan asset quality improved in 2015 compared to 2014. Mortgage loan asset quality improved in 2015 compared to 2014. The non-performing ratio for mortgage loans declined from 2.7% in 2014 to 2.1% in 2015. The impaired mortgage loans ratio also improved from 5.6% in 2014 to 5.1% in 2015.

Additionally, the lower economic growth in 2015 resulted in a rise in charge-off of loans analyzed on an individual basis that totaled Ch$12,955 million in 2015 and rose 19.8% compared to 2014.

Recoveries on loans previously charged-off increased 15.5% in 2015 compared to 2014 (see "Provision for loan losses" in the table above). This was due to higher recoveries of charged-off commercial and residential mortgage loans mainly due to improved recovery efforts, especially in the Middle-market segment. As the Bank has improved the asset quality in consumer lending, the growth rate of recoveries has also diminished.

As a result of the factors mentioned above, *net operating profit* decreased 4.8% in 2015 compared to 2014 and totaled Ch$1,245,494 million.

*Operating expenses* increased 5.3% compared to 2014. The efficiency ratio was 43.8% in 2015 compared to 41.1% in 2014. The 14.2% increase in personnel salaries and expenses was mainly due to an increase in personnel compensation, higher severance payments and greater costs related to benefits included in the Bank's collective bargaining agreement. Severance payments increased 222.4% to Ch$34,051 million. The Bank in 2015 executed a program to eliminate high level management positions in order to mitigate cost growth which entailed greater severance payments. In March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on October 1, 2014, and which will expire on December 31, 2018. This resulted in an increase in certain benefits related to the Bank's health insurance fund and other benefits.

Administrative expenses increased 7.5% in the year ended December 31, 2015 compared to the corresponding period in 2014. The increase in administrative expenses was mainly due to the 14.3% increase in maintenance, repair of property, plant and equipment, which totaled Ch$20,002 million. In 2015, the Bank continued to refurbish branches, open new Santander Select branches, expand the number of Middle-market centers and close Santander Banefe branches and other payment centers.

Impairment charges totaled Ch$21 million in 2015 compared to Ch$36,664 million in 2014. In 2014, the Bank initiated a plan to transform its business and operating model with a better focus on the client. In 2014, the Bank evaluated a number of applications that were in use or in development and tested them for impairment. Following the testing, in accordance with IAS 36, the Bank has recognized an impairment of Ch$36,556 million in 2014 due to the abandonment of unnecessary systems.

Depreciation and amortization expense increased 21.4% in 2015 compared to 2014 and totaled Ch$53,614 million. This rise was mainly due to the increase in depreciation of equipment that reached Ch$18,417 million in 2015 compared to Ch$12,331 million in 2014. This in line with the greater investments in hardware and other equipment as the Bank modernizes its branch network and systems.

*Other operating expenses* were Ch$58,729 million in 2015, a 0.4% decrease compared to 2014. In 2015, customer service expenses, which are related to our phone banking service, decreased 60.6% due to cost restructurings. Additionally in 2015, the Bank had less expenses related to adopting chip technology on cards. These lower other operating expenses were offset by greater provisions for assets received in lieu of payment.

*Total income tax expense* in 2015 totaled Ch$76,395 million a 49.6% increase compared to 2014. This rise was mainly due to the higher effective tax rate paid by the Bank, which in 2015 reached 14.5% compared to 8.1% in 2014. The higher effective tax rate was mainly due to the higher statutory corporate tax rate which increased from 21% in 2014 to 22.5% in 2015. In 2015, the Bank also recognized lower credits from deferred tax assets that totaled Ch$10,600 million in 2015 compared to Ch$39,262 million in 2014. Finally, the lower CPI inflation rate in 2015 compared to 2014 also resulted in higher income tax expense since the Bank, for Chilean tax purposes, must re-value its capital each year for the variation in CPI inflation.

*Results of operations for the years ended December 31, 2014 and 2013*. Consolidated net income for the year ended December 31, 2014 increased 29.6% to Ch$575,890 million. Our return on annualized average equity was 21.4% in 2014 compared to 18.9% in 2013.

In 2014, *net operating profit before loan losses* was Ch$1,663,497 million, an increase of 9.5% compared to 2013. Our net interest income increased 22.3% to Ch$1,317,104 million in 2014 compared to 2013. The average balance of our interest-earning assets increased by 15.0% in 2014 compared to 2013. Our net interest margin increased to 4.92% in 2014 compared to 4.63% in 2013. Net interest margins were positively affected by the increase of the average nominal rate we earned on our interest earning assets. This was mainly due to a rise in the

UF inflation rate in 2014 compared to 2013 and higher loan yields in Companies and institutions and Global banking and markets. This was only partially offset by the negative impact of maximum rate regulation on consumer loan yields, a lower interest rate environment and loan growth focused in lower yielding, but less risky segments.

*Net fees and commission income* decreased 1.1% to Ch$227,283 million in the twelve-month period ended December 31, 2014 compared to the same period in 2013. In 2014, the Bank continued to experience positive client base and product growth. These positive commercial efforts continued to be offset by regulations that lowered fees from brokering mandatory insurance for mortgage loans (mainly fire and earthquake insurance) and the difficulties in increasing fees following stricter regulations issued by the SERNAC Financiero, the newly formed consumer protection agency for financial services.

*Total financial transactions, net*, which is the sum of net income from financial operations and foreign exchange profit (loss), totaled Ch$112,565 million in the year ended December 31, 2014, a decrease of 9.5% compared to the same period in 2013. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well the results of our non-client treasury operations, mainly the Financial Management Division. The positive results from our client Treasury business, which increased 6.0% compared to 2013 and totaled Ch$83,837 million, were offset by a 36.6% decrease in results from non-client treasury income, which totaled a gain of Ch$28,728 million in 2014. The fall in results from non-client treasury income was mainly due to lower gains obtained from short-term interest rate differential between the U.S. dollar and Chilean peso. The Bank has a greater spot position in liabilities denominated in foreign currency as compared to assets. These principally U.S. dollar-denominated liabilities are hedged through derivatives, leaving minimal foreign currency exposure, but this does result in a short-term interest rate differential between the U.S. dollar and Chilean peso, which produces the financial result discussed here. This result is positive when interest rates in the United States are trending up and local rates are falling and is negative when the opposite occurs. In 2014 and 2013, local rates decreased relative to U.S. rates, but this impact was more significant in 2013 when the end of quantitative easing was announced.

*Other operating income* totaled a gain of Ch$6,545 million in the year ended December 31, 2014, a 92.6% decrease compared to 2013. The main reasons for this decrease was the gain of Ch$78,122 million recognized from the sale of our asset management subsidiary, Santander Asset Management S.A. Administradora General de Fondos in 2013.

*Provisions for loan losses, net of recoveries* totaled Ch$354,903 million in 2014 and decreased 4.5% compared to the amount of provisions recorded in 2013. This decrease was mainly due to better asset quality in consumer and mortgage lending.

Provisions established for the Bank's consumer loans decreased by 19.0% to Ch$180,666 million in 2014 compared to 2013. The non-performing ratio for consumer loans declined from 2.6% in 2013 to 2.5% in 2014 and the impaired mortgage loans ratio also improved from 9.7% in 2013 to 9.3% in 2014. This reduction in provision expense in consumer lending was also due to the ongoing improvement performed on the allowances models for consumer loans analyzed on a group basis. The model was calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of the advancement of the

models' governance allowing technical and decisional approvals at different points of the approval process, more robust statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in a reversal of provisions for consumer loans of Ch$26,563 million in 2014.

Provisions for mortgage loans decreased 44.9% in 2014 compared to 2013. The non-performing ratio for mortgage loans declined from 2.8% in 2013 to 2.7% in 2014 and the impaired mortgage loans ratio also improved from 5.7% in 2013 to 5.6% in 2014.

This reduction in provision expense in consumer lending was offset by the 29.1% rise in provision for loan losses in commercial lending, which totaled Ch$203,454 million in 2014. This was mainly due to the ongoing improvement performed on the allowances models for commercial loans analyzed on a group basis. The model was calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of the advancement of the models' governance allowing technical and decisional approvals at different points of the approval process, more robust statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in an increase in provisions for commercial loans of Ch$45,141 million in 2014.

Additionally, the lower economic growth in 2014 resulted in a rise in charge-off of loans analyzed on an individual basis that totaled Ch$10,811 million in 2014 and rose 33.9% compared to 2013.

Recoveries on loans previously charged-off increased 6.7% in 2014 compared to 2013. This was due to higher recoveries of charged-off commercial loans, a result of higher recovery of charge-offs in the SME segment.

As a result of the factors mentioned above, net operating profit increased 14.0% in 2014 compared to 2013 and totaled Ch$1,308,594 million.

*Operating expenses* increased 12.1% compared to 2013. The efficiency ratio was 41.1% in 2014 compared to 40.2% in 2013. The 9.9% increase in personnel salaries and expenses was mainly due to higher salaries and bonuses. Total salary expenses and bonuses increased 9.4% in 2014 compared to 2013, totaling Ch$290,509 million.

Administrative expenses increased 9.0% in the year ended December 31, 2014 compared to the corresponding period in 2013. The increase in administrative expenses was mainly due to the 13.9% increase in maintenance, repair of property, plant and equipment, which totaled Ch$17,498 million and the 7.6% rise in security services expenses that totaled Ch$17,089 million. In 2014, the Bank continued to refurbish branches, open new Santander Select branches and close Santander Banefe branches.

Depreciation and amortization expense decreased 27.7%, mainly due to the lower depreciation and amortization of intangible assets. In 2014, the Bank, following an extensive analysis of its intangible assets, performed an extraordinary charge-off of those intangible assets, mainly software, that were obsolete or were not contributing to the Bank’s business or earnings.

Impairment charges increased 14,926.2% in 2014 compared to 2013 and totaled Ch$36,664 million. The Bank, in its strategic objectives, initiated a plan to transform its business and operating model with a better focus on the client. Therefore, there have arisen a number of new requirements for the Bank to adapt to changing customer demands and establish new ways to interact with customers. In conjunction with this change in strategic focus, we tested a number of applications that were in use or in development for impairment. Following the testing, in accordance with IAS 36, the Bank has recognized an impairment of Ch$36,556 million in 2014.

*Other operating expenses* were Ch$58,946 million in 2014, a 12.6% increase compared to 2013. This increase was mainly due to higher provisions for contingencies that totaled Ch$13,080 million in 2014 compared to Ch$5,805 million in 2013. Compared to 2013, the rise in provision for contingencies was due to Ch$5 billion for future

severance payments and Ch$2.4 billion for future costs related to chip technology for cards. This reflects the pending expense for customers that have yet to change their debit or credit card with the new chip technology, which is an on-going process. See “Note 33—Other operating income and expenses” and “Note 20-Provisions” to our Audited Consolidated Financial Statements for more detail on Other operating expenses.

*Total income tax expense* in 2014 totaled Ch$51,050 million a 46.0% decrease compared to 2013. The Bank paid an effective tax rate of 8.1% in 2014 compared to 17.5% in 2013. The Chilean Government enacted in 2014 a reform to the corporate tax structure. The statutory corporate tax rate increased from 20% to 21% in 2014 and will rise to 22.5% in 2015. By the end of 2016 a corporation’s shareholders must opt between two new tax systems for a minimum period of five years. In one, the statutory income tax rate will rise to 24% in 2016 and 25% in 2017 and onward. In the other system, the statutory tax rate will rise to 25.5% in 2016 and 27% in 2017 and onward.

The lower effective tax rate was mainly due to the fact that income tax expenses in 2014 included a one-time non-cash gain of Ch$39,262 million from the re-adjustments made to the Bank’s deferred tax asset base following passage of the new tax law. The Bank has more deferred tax assets than liabilities. This gain arises from the difference between the Bank’s accounting and tax books regarding how provisions and charge-offs are recognized. When the statutory rates were modified, the Bank’s net deferred tax assets increased as the future tax rates used to calculate this asset were gradually increased from 20% to 27%. Also, higher CPI inflation resulted in a greater revaluation of our capital, which resulted in a lower effective tax rate.

Net interest income

| | Year ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$, except percentages) | | | | |
| Retail banking | 873,026 | 833,139 | 865,220 | 4.8 % | (3.7 %) |
| Middle-market | 229,812 | 200,675 | 193,454 | 14.5 % | 3.7 % |
| Total commercial banking | 1,102,838 | 1,033,814 | 1,058,674 | 6.7 % | (2.3 %) |
| Global corporate banking | 85,553 | 71,992 | 72,659 | 18.8 % | (0.9 %) |
| Other (1) | 66,815 | 211,298 | (54,571 ) | (68.4%) | --% |
| Net interest income | 1,255,206 | 1,317,104 | 1,076,762 | (4.7 %) | 22.3 % |
| Average interest-earning assets | 28,523,005 | 26,759,696 | 23,267,735 | 6.6 % | 15.0 % |
| Average non-interest-bearing demand deposits | 5,719,889 | 5,386,272 | 4,620,849 | 6.2 % | 16.6 % |
| Net interest margin (2) | 4.40 % | 4.92 % | 4.63 % | | |
| Average shareholders' equity and average non-interest-bearing demand deposits to total average interest-earning assets | 29.9 % | 30.2 % | 30.0 % | | |

(1) Consists mainly of net interest income from the Financial Management Division and the cost of funding our fixed income trading portfolio. Each segment obtains funding from its clients. Any surplus deposits are transferred to the Financial Management Division, which in turn makes such excess available to other areas that need funding. The Financial Management Division also sells the funds it obtains in the institutional funding market at a transfer price equal to the market price of the funds.

(2) Net interest margin is net interest income divided by average interest-earning assets.

*For the years ended December 31, 2015 and 2014*. Our net interest income totaled Ch$1,255,206 million in the year ended December 31, 2015, a decrease of 4.7% from Ch$1,317,104 million in 2014. Average interest earning assets increased 6.6% in the same period, driven mainly by lending in the Retail banking and Middle-market segments. Net interest margin in 2015 was 4.40% compared to 4.92% in 2014. Net interest margins were negatively affected by the decrease of the average nominal rate we earned on our interest earning assets. This was mainly due to a decrease in the UF inflation rate in 2015 compared to 2014, which in turn lowered the average nominal rate earned on UF denominated interest earning assets. This impact is more relevant than the decrease in funding cost of liabilities linked to the UF since the Bank has more assets than liabilities linked to the UF. We also earned a lower nominal rate on our peso-denominated interest earning assets. This was mainly due to loan growth focused in lower yielding, but less risky loans. This was reflected in the decrease in the average nominal interest rate earned on our peso denominated consumer loans that decreased from 17.2% in 2014 to 14.0% in 2015.

| Average nominal interest rate earned on interest earning assets | 2015 | 2014 | 2013 |
|---|---|---|---|
| Ch$ | 9.6% | 10.3% | 11.7% |
| UF | 7.6% | 9.3 % | 6.5 % |
| Foreign currencies | 1.8% | 1.5 % | 1.7 % |
| Total | 7.3% | 8.3 % | 8.0 % |

The average rate paid on our interest bearing liabilities decreased from 4.7% in 2014 to 4.0% in 2015. This was mainly due to a lower rate paid on UF denominated liabilities as a result of the lower UF inflation in the year. As a result, the average nominal rate paid on interest bearing liabilities denominated in UF decreased to 7.2% in 2015 compared to 8.4% in 2014. At the same time and despite rising short-term interest rates, the average nominal rate paid on peso denominated interest bearing liabilities also decreased from 6.0% in 2014 to 4.4% in 2015, reflecting positive management of time deposits costs with our clients.

| Average nominal interest rate paid on interest bearing liabilities | 2015 | 2014 | 2013 |
|---|---|---|---|
| Ch$ | 4.4% | 6.0% | 6.0% |
| UF | 7.2% | 8.4% | 5.9% |
| Foreign currencies | 1.3% | 0.7% | 1.9% |
| Total | 4.0% | 4.7% | 4.6% |

The changes in net interest income by segment in 2015 as compared to 2014 were as follows:

- Net interest income from Retail banking increased 4.8%, mainly as a result of the 12.1% increase in loan volumes in this segment. The Bank focused growth in the high end of this segment in order to focus on margins net of risks, especially considering that in 2015 economic growth slowed. As a result, the highest growing loan product was residential mortgage loans that have a lower yield compared to consumer loans. At the same time, the focus on high income earners also resulted in a reduction of the rate earned on consumer loans.

- Net interest income from the Middle-market segment increased 14.5% in 2015, mainly as a result of the 10.3% increase in loans in this segment. This segment was of significant strategic focus in 2015 as the Bank increased business volumes in this segment both in lending and non-lending services.

- Net interest income from Global corporate banking increased 18.8% in 2015 despite a 1.1% decrease in loan volumes. Loan yields in this segment improved as alternative sources of funds for Chilean corporates, especially from foreign sources, became more expensive. This segment also saw an improvement in cash management services that improved the funding mix.

- Other net interest income consists mainly of net interest income from the available for sale investment portfolio and deposits in the Central Bank and the financial cost of supporting our cash position and investment portfolio for trading, the interest income from which is recognized as net income from financial operations and not interest income. The result of the Bank's inflation gap is also included in this line. The net interest income included as "other" totaled a gain of Ch$211,298 million in 2014 compared to a loss of Ch$54,571 million in 2013. The higher gain in 2014 can be explained by the greater UF inflation in 2014 compared to previous periods and the greater UF gap in 2014. The lower variation of the UF gap resulted in Ch$99,280 million less net interest income (See Item 5A-Impact of Inflation). Other net interest income was also negatively affected by lower net interest income from the Bank's liquidity position, especially the portion denominated in U.S. dollars. This was mainly due to the low interest rate environment observed globally. The ALCO's net interest income derived from its liquidity portfolio, and excluding the impact of inflation, was Ch$66,096 million in 2015 compared to Ch$98,469 million in 2014.

The following table shows our balances of loans and accounts receivable from customers and interbank loans by segment at the dates indicated.

| | Year ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$, except percentages) | | | | |
| Retail banking | 17,034,707 | 15,191,808 | 13,703,528 | 12.1% | 10.9 % |
| Middle-market | 6,006,282 | 5,443,983 | 5,035,780 | 10.3% | 8.1 % |
| Global corporate banking | 2,178,643 | 2,201,913 | 2,268,440 | (1.1 %) | (2.9 %) |
| Other (1) | 81,125 | 54,945 | 53,013 | 47.6% | 3.6 % |
| Total loans | 25,300,757 | 22,892,649 | 21,060,761 | 10.5% | 8.7 % |

(1) Includes interbank loans.

*For the years ended December 31, 2014 and 2013*. Our net interest income totaled Ch$1,317,104 million in the year ended December 31, 2014, an increase of 22.3% from Ch$1,076,762 million in 2013. Average interest earning assets increased 15.0% in the same period, driven mainly by lending in the Middle-market and Retail banking segments. Net interest margin in 2014 was 4.92% compared to 4.63% in 2013. Net interest margins were positively affected by the increase of the average nominal rate we earned on our interest earning assets. This was mainly due to a rise in the UF inflation rate in 2014 compared to 2013 and higher loan yields in the Middle-market segment and Global corporate banking. As financing sources from abroad became more expensive for Chilean companies, this permitted higher loan yields locally. This was only partially offset by the negative impacts of maximum rate regulation on consumer loan yields, a lower interest rate environment and loan growth focused in lower yielding, but less risky segments.

The average rate paid on our interest bearing liabilities increased from 4.6% in 2013 to 4.7% in 2014. This was mainly due to a higher rate paid on UF denominated liabilities as a result of the higher UF inflation in the year. The Bank's funding mix also improved in 2014. The ratio of average shareholders' equity and average non-interest bearing demand deposits to total average interest earning assets increased from 30.0% in 2013 to 30.2% in 2014. Average non-interest bearing demand deposits increased 16.6% in 2014 compared to 2013.

The changes in net interest income by segment in 2014 as compared to 2013 were as follows:

- Net interest income from Retail banking decreased 3.7% in 2014 compared to 2013. The Bank focused growth in the high-income earners of this segment in order to focus on margins net of risks, especially considering that in 2014 the new maximum rate legislation was going to begin to affect the low end of the consumer market.

- Net interest income from the Middle-market segment increased 3.7% in 2014, mainly as a result of the 8.1% increase in loans to this segment and an improved funding mix. This segment was of significant strategic focus in 2014 as the Bank increased business volumes in this segment both in lending and non-lending while maintaining positive asset quality indicators in this segment.

- Net interest income from Global corporate banking decreased 0.9% in 2014 due to a 2.9% decrease in loan volumes.

- Other net interest income consists mainly of net interest income from the available for sale investment portfolio and deposits in the Central Bank and the financial cost of supporting our cash position and investment portfolio for trading, the interest income from which is recognized as net income from financial operations and not interest income. The result of the Bank's inflation gap is also included in this line. The net interest income included as "other" totaled a gain of Ch$211,298 million in 2014 compared to a loss of Ch$54,571 million in 2013. The higher gain in 2014 can be explained by the greater UF inflation in 2014 compared to previous periods and the greater UF gap in 2014. The lower variation of the UF gap resulted in Ch$99,280 million less net interest income (See Item 5A—Impact of Inflation). Other net interest income was also negatively affected by lower net interest income from the Bank's liquidity position, especially the portion denominated in U.S. dollars. This was mainly due to the low interest rate environment observed globally. The ALCO's net interest income derived from its liquidity portfolio, and excluding the impact of inflation, was Ch$66,096 million in 2015 compared to Ch$98,469 million in 2014.

Fee and commission income

*For the years ended December 31, 2015 and 2014*. Net fees and commission income increased 4.6% to Ch$237,627 million in the twelve-month period ended December 31, 2015 compared to the same period in 2014. In 2015, the Bank continued to experience positive client base and product growth that drove fee growth in various products. The following table sets forth certain components of our income from services (net of fees paid to third parties directly connected to providing those services, principally fees relating to credit card processing and ATM network administration) in the years ended December 31, 2015, 2014 and 2013.

| | Year ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Credit, debit and ATM cards | 46,066 | 43,161 | 39,325 | 6.7 % | 9.8 % |
| Collections | 30,399 | 35,355 | 45,190 | (14.0 %) | (21.8 %) |
| Insurance brokerage | 39,252 | 34,695 | 32,253 | 13.1 % | 7.6 % |
| Letters of credit | 35,276 | 32,403 | 30,131 | 8.9 % | 7.5 % |
| Checking accounts | 30,291 | 29,031 | 28,044 | 4.3 % | 3.5 % |
| Custody and brokerage services | 8,685 | 8,307 | 6,195 | 4.6 % | 34.1 % |
| Lines of credit | 6,597 | 7,015 | 7,025 | (6.0 %) | (0.1 %) |
| Asset management | – | – | 31,154 | – | (100.0 %) |
| Others | 41,061 | 37,316 | 10,519 | 10.0 % | 254.7 % |
| Total fees and commission income, net | 237,627 | 227,283 | 229,836 | 4.6 % | (1.1 %) |

Fees from credit, debit and ATM cards increased by 6.7% in 2015, reflecting the positive growth of the usage of the Bank's credit and debit cards. Active credit cards totaled 1,936,697 as of October 2015, the latest market data available and increased 3.1% compared to the same period in 2014.

Fees from collections decreased by 14.0% in 2015 compared to 2014. In 2015, we once again auctioned to the lowest bidder the mandatory insurance products that are sold with mortgage loans. This negatively impacted collection fees where this income is recognized.

Insurance brokerage fees increased 13.1% as business volumes recovered in line with a recovery in client and product growth.

Fees from letters of credit and other contingent operations increased 8.9% in 2015. This increase was mainly due to positive performance of our international and foreign trade financing businesses with clients and also due to the depreciation of the peso against the U.S. dollar since this business is mainly transacted in foreign currency.

Fees from checking accounts increased 4.3% in 2015 compared to 2014. This was mainly due to a rise in the Bank's checking account base. According to the latest data published by the SBIF as of December 2015, the Bank's checking accounts totaled 852,492 compared to 815,182 in 2014 or a growth of 5.5%. Higher checking account balances both in retail banking as well as an increase in corporate cash management services also boosted fee growth in this product.

Brokerage and custody fees increased 4.6% in 2015 as compared to 2014. Despite lack luster performance of local equity markets, which hurt brokerage activity, the depreciation of the peso against the dollar positively affected brokerage and custody fees. The Bank also saw an increase in custody services with corporate clients.

Fees from lines of credit decreased 6.0% in 2015 compared to 2014. Lower spending on behalf of individuals resulted in less usage of lines of credit attached to checking accounts. At the same time, as the Bank continued to de-risk its retail loan book, it reduced its exposure of lines of credit among low income earners.

Fees from our asset management business totaled Ch$0 in 2015 and 2014. In December 2013, our Asset Management business was sold. In 2014 and 2015, the Bank continued to broker asset management products for Santander Asset Management. These brokerage fees are included as other income from fees.

The rise in other fee income of 10.0% in 2015 compared to 2014 was mainly due to higher fees from the brokerage of asset management services. As mentioned in the paragraph above, the Bank is no longer in the asset management

business, but serves as an exclusive broker for Santander Asset Management, the acquirer of our asset management business. In 2015, asset management brokerage fees totaled Ch$36,182 million and increased 16.8% compared to 2014. The positive growth of our client base among high income earners led to higher brokerage fees of asset management products.

The following table sets forth, for the periods indicated our fee income broken down by segment and sub-segment for the periods indicated:

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Retail banking | 190,380 | 175,007 | 184,766 | 8.8 % | (5.3 %) |
| Middle-market | 28,537 | 27,055 | 29,199 | 5.5 % | (7.3 %) |
| Global corporate banking | 15,231 | 22,338 | 17,432 | (31.8 %) | 28.1 % |
| Other | 3,479 | 2,883 | (1,561 ) | 20.7 % | --% |
| Total fees and commission income, net | 237,627 | 227,283 | 229,836 | 4.6 % | (1.1 %) |

Fees from Retail banking increased 8.8% in 2015 compared to 2014. Since mid-2013, the Bank has been executing a profound overhaul of its Client Relationship Management (CRM) systems, client service and other changes to its commercial team front-office functions, which has continued to increase product sales and usage. This has led to high fee growth among retail bank clients, especially cards, insurance brokerage, brokerage of asset management products and checking accounts. Total retail clients reached 3.38 million at year-end 2015 and increased 1.6%. Total retail clients with a checking account increased 6.4% to 692,359 and loyal retail clients (a new internal measure that considers the amount of products a client has, uses and their profitability) increased 4.8% to 519,889 by year-end 2015.

The 5.5% increase in fees from the Middle-market segment was mainly due to the positive expansion of business volumes in this segment, which led to greater product usage.

Fees from the Global corporate banking segment decreased 31.8% in 2015 compared to 2014. In 2015, this segment saw a reduction in investment banking activities such as bond issuances and financial advisory, mainly due to the slower economic growth.

*For the years ended December 31, 2014 and 2013*. Net fees and commission income decreased 1.1% to Ch$227,283 million in the twelve-month period ended December 31, 2014 compared to the same period in 2013. In 2014, the Bank continued to experience positive client base and product growth. These positive commercial efforts continued to be offset by regulations that lowered fees from collecting mandatory insurance for mortgage loans (mainly fire and earthquake insurance) and the difficulties in increasing fees following stricter regulations issued by the SERNAC Financiero, the newly formed consumer protection agency for financial services. See "Item 3. Key Information—D. Risk Factors—Chile's banking regulatory and capital markets environment is continually evolving and may change."

Fees from credit, debit and ATM cards increased by 9.8% in 2014, reflecting the positive growth of the usage of the Bank's credit and debit cards. Active credit cards totaled 1,877,589 at year-end 2014 and increased 3.3% compared to year-end 2013.

Fees from collections decreased by 21.8% in 2014 compared to 2013. In 2014, we once again auctioned to the lowest bidder the mandatory insurance products that are sold with mortgage loans. This negatively impacted collection fees where this income is recognized. At the same time in 2014, per new regulations, we began provisioning as a fee expense a portion of the life insurance fees collected by the Bank on behalf of insurance companies. We provisioned a total of Ch$6.8 billion of such fees in 2014. Several of the loan products that the Bank sells, mainly consumer and mortgage loans, are sold with a life insurance that covers the value of the loan in case of death. This insurance premium is collected by the Bank on behalf of insurance companies upfront at the moment the loan is originated to cover a period equal to the maturity of the loan. Therefore, if the client pre-pays the loan, we must return to the insurance company a portion of the fee collected. Insurance brokerage fees increased 7.6% as business volumes recovered in line with a recovery in client and product growth.

Fees from letters of credit and other contingent operations increased 7.5% in 2014. This increase was mainly due to positive performance of our international and foreign trade financing businesses with clients and also due to the depreciation of the peso against the U.S. dollar since this business is mainly transacted in foreign currency.

Fees from checking accounts increased 3.5% in 2014 compared to 2013. This was mainly due to a rise in the Bank's checking account base. According to the latest data published by the SBIF as of November 2014, the Bank's checking

accounts totaled 815,182 compared to 772,436 in 2013 or a growth of 5.5%. This was due in part to the implementation of an improved customer relationship management system and better quality of service standards. Higher checking account balances both in retail banking as well as an increase in corporate cash management services also boosted fee growth in this product.

Brokerage and custody fees increased 34.1% in 2014 as compared to 2013. Despite lack luster performance of local equity markets, which hurt brokerage activity, the depreciation of the peso against the dollar positively affected brokerage and custody fees. At the same time the placing of local fixed income instruments on behalf of our clients drove income in this product as well.

Fees from lines of credit were essentially flat compared to 2013. Fee income from this product has stabilized as the client base expanded in 2014. This following various years of decline due to regulations, a decrease in lines of credit as the Bank reduced its exposure to clients with unhealthy financial behavior and restrictions on the increase of fees following the creation of the SERNAC Financiero.

Fees from our asset management business totaled Ch$0 in 2014. In December 2013, our Asset Management business was sold. In 2014, the Bank continued to broker asset management products for Santander Asset Management. These brokerage fees are included as other income from fees.

The rise in other fee income of 254.7% in 2014 compared to 2014 was mainly due to higher fees from the brokerage of asset management services. As mentioned in the paragraph above, the Bank is no longer in the asset management business, but serves as an exclusive broker for Santander Asset Management, the acquirer of our asset management business. In 2014, asset management brokerage fees totaled Ch$30,984 million.

By reporting segment fee income evolution was the following during 2014:

Fees from our Retail banking segment decreased 5.3% in 2014 compared to 2013. This was mainly due to several regulations that affected fee income in 2014, mainly collection fees. Additionally, fees in this segment were impacted by the SERNAC Financiero's restrictions on the increase of fees and the new regulations regarding the selling of mandatory insurance for mortgage loans. At the same time, the Bank has de-emphasized growth among low income earners, which resulted in lower business activity and client growth in this segment, which is mainly dedicated to banking lower income individuals that generate high levels of fees.

The 7.3% decrease in fees in the Middle-market segment reflects the timid increase in business activity in general in line with the overall growth of the economy in 2014 and the negative impact of insurance brokerage fee regulations.

Fees from Global corporate banking increased 28.1%. In 2014, this segment saw an important increase in cash management services, custody, financial advisory and other corporate services. Despite lower GDP growth in 2014, many Chilean companies performed various important transactions locally with the Bank.

Other income fee income that was not attributed to any business segment totaled a gain of Ch$2,883 million in 2014 compared to a loss of Ch$1,561 million in 2013. This improvement was mainly due to the fact that in 2014 various fee expenses that were not previously assigned to any specific reporting segment were distributed among the different lines of business.

Financial transactions, net

The following table sets forth information regarding our income (loss) from financial transactions for the years ended December 31, 2015, 2014 and 2013.

| Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|
| 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| (in millions of Ch$) | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Net income from financial operations | (457,897) | (159,647) | (20,289) | 186.8 % | 686.9 % |
| Foreign exchange profit (loss), net | 603,396 | 272,212 | 144,726 | 121.7 % | 88.1 % |
| Total financial transactions, net | 145,499 | 112,565 | 124,437 | 29.3 % | (9.5 %) |

*For the years ended December 31, 2015 and 2014*. Total financial transactions, net, which is the sum of net income from financial operations and foreign exchange profit (loss), totaled Ch$145,499 million in the year ended December 31, 2015, an increase of 29.3% compared to the same period in 2014. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well the results of our Financial Management Division.

Net income from financial operations was a loss of Ch$457,897 million in 2015 compared to a loss of Ch$159,647 million in 2014.

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Derivatives classified as trading | (503,981) | (224,015) | (68,201) | 125.0 % | 228.5 % |
| Trading investments | 21,505 | 45,952 | 29,985 | (53.2 %) | 53.2 % |
| Sale of loans | 863 | 6,070 | 3,177 | (85.8 %) | 91.1 % |
| Available-for-sale instruments sales | 23,655 | 6,934 | 10,258 | 241.1 % | (32.4 %) |
| Other results | 61 | 5,412 | 4,492 | (98.9 %) | 20.5 % |
| Net income (loss) from financial operations | **(457,897)** | **(159,647)** | **(20,289)** | **186.8 %** | **686.9 %** |

The higher loss from financial operations in 2015 compared to 2014 was mainly due to:

(i) Higher losses from derivatives classified as trading. In 2015, the average yearly exchange rate depreciated 14.8%. Movements in foreign currency affect this line item because it includes the valuation adjustments of our derivatives classified as trading. The Bank's spot position includes all assets and liabilities in foreign currency and assets and liabilities in Ch$ linked to U.S.$ that are not derivatives. Internal policy prohibits us from opening a large exposure in foreign currency, but we usually have more liabilities in foreign currency (mainly US$) than assets in our spot position due to our long-term funding in foreign currency and deposits denominated in foreign currencies from Chilean exporters. This net foreign currency liability spot position is hedged using different instruments. Our long-term foreign currency funding is hedged with cross-currency swaps that are matched and are accounted under hedge accounting rules. Therefore, the liability and the corresponding hedge are recognized in foreign exchange profits, described below and not in this line item. Excluding this part of our funding in foreign currency, we are left with the foreign currency deposits and other short-term foreign currency funding mechanisms, which are smaller than the foreign currency assets, mainly cash. This difference is hedged with derivatives that are accounted as trading derivatives and since the size of our cash position in U.S. dollars (see Note 4a of our Audited Consolidated Financial Statements) increased, the amount of derivatives hedging this position also rose and the loss from derivatives classified as trading rose. For more details, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management— Market risk – local and foreign financial management."

(ii) The 53.2% lower gain from trading investments was mainly due to the lower UF inflation rate in 2015 compared to 2014. In this line item the mark-to-market and interest income of the trading fixed income portfolio are recognized. In 2015, the lower UF inflation decreased interest from this portfolio. This explains the 53.2% increase in results from the trading portfolio compared to 2014, which totaled Ch$21,505 million.

(iii) The results from our available for sale portfolio increased 241.1% in 2015 compared to 2014. This was mainly due to higher realized gains from our available for sale fixed income portfolio, especially in the first quarter of 2015 when long-term interest rates declined sharply.

The net result from foreign exchange transactions totaled a gain of Ch$603,396 million in 2015 compared to Ch$272,212 million.

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Net profit or loss from foreign currency exchange differences | (197,875) | (370,282) | (242,841) | (46.6 %) | 52.5 % |
| Hedge-accounting derivatives | 777,254 | 621,767 | 379,910 | 25.0 % | 63.7 % |
| Translation gains and losses over assets and liabilities indexed to foreign currencies, net | 24,017 | 20,727 | 7,657 | 15.9 % | 170.7 % |
| Net results from foreign exchange profit (loss) | 603,396 | 272,212 | 144,726 | 121.7 % | 88.1 % |

The net result from foreign exchange transactions totaled a gain of Ch$603,396 million in 2015 compared to Ch$272,212 million.

Included in these results is the sub-item Net profit or loss from foreign currency exchange differences which totaled a loss of Ch$197,875 million in 2015. Since the Bank, in its spot position has more liabilities than asset in foreign currency, the depreciation of the peso in 2015 resulted in a net loss in this sub-item.

Included in the net results from foreign exchange profit (loss) are the results from hedge-accounting derivative that are used to hedge the foreign currency risk of our long-term foreign currency funding. These are mainly cross-currency swaps that are accounted under hedge accounting rules. These derivatives produced a gain of Ch$777,254 million in 2015.

Finally, the Bank has assets and liabilities that are in Chilean pesos, but indexed to foreign currency. In this case, we have more asset than liabilities linked to foreign currency and when the peso depreciates this produces a translation gain which in 2015 totaled Ch$24,017 million. This exposure is also hedged.

For more details, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management— Market risk – local and foreign financial management."

In order to more easily compare the results from financial transactions, net, we present the following table that separates the results by lines of business for 2015, 2014 and 2013.

| | Year ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Santander Global Connect | 60,995 | 50,740 | 44,860 | 20.2 % | 13.1 % |
| Market-making with clients | 22,850 | 33,097 | 34,258 | (31.0 %) | (3.4 %) |
| Client treasury services | 83,845 | 83,837 | 79,118 | --% | 6.0 % |
| Sale of loans and charged-off loans | 863 | 6,070 | 3,177 | (85.8 %) | 91.1 % |
| Proprietary trading | (567) | (1,113) | (1,963) | (49.0 %) | (43.3 %) |
| Financial Management Division and others (1) | 61,358 | 23,771 | 44,105 | 158.1% | (46.1 %) |
| Non-client treasury income (loss) | 61,654 | 28,728 | 45,319 | 114.6% | (36.6 %) |
| Total financial transactions, net | 145,499 | 112,565 | 124,437 | 29.3 % | (9.5 %) |

(1) The Financial Management Division manages the structural interest rate risk, the structural position in inflation-indexed assets and liabilities, capital requirements and liquidity levels. The aim of the Financial Management Division is to provide stability and continuity in our net interest income from commercial activities, and to ensure that we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk.

Client treasury services totaled Ch$83,845 million and were flat compared to 2014. The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. In 2015, the results from Santander Global Connect increased 20.2%. The depreciation of the peso and higher market volatility led to a larger demand for hedging from our Corporate and Middle-market clients, driving this income line. The results from market-making with client services decreased 31.0% in 2014, mainly due to lower business volumes of tailor-made treasury services sold to specific corporate clients. These results may vary year-to-year as some large operations with corporate clients may not be repeated in subsequent years.

The results from non-client treasury income increased 114.6% and totaled a gain of Ch$61,654 million in 2015 compared to Ch$28,728 million in 2014. These results include the income from sale of loans, including charged-off loans, proprietary trading and the results from our Financial Management Division.

The results from the sale of loans decreased 85.8% to Ch$863 million in 2015. The results from proprietary trading totaled a loss of Ch$567 million. The Bank since year-end 2012, no longer has a proprietary trading area and these results are from residual positions that are being closed.

In 2015, income from the Bank's Financial Management Division increased 158.1% to Ch$61,358 million. This department manages the structural interest rate risk, the structural position in inflation-indexed assets and liabilities, capital requirements and liquidity levels. The aim of the Financial Management Division is to provide stability and continuity in our net interest income from commercial activities, and to ensure that we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk. This higher result was mainly due to larger realized gains from our available for sale portfolio. The results from our available for sale portfolio increased 241.1% in 2015 compared to 2014 and totaled Ch$23,655 million. This higher gain arose from the decline in long-term interest rates, especially in the first quarter of 2015. The results from Financial Management Division also include the offset of the foreign currency impact on administrative expenses in foreign currency. As the peso depreciated against the Euro, the currency in which some of our IT costs are denominated, this resulted in higher administrative expenses (See Item 5-Management Discussion and Analysis-Operating Expenses), but also higher gains in the Financial Management Division's results.

*For the years ended December 31, 2014 and 2013.* Total financial transactions, net, which is the sum of net income from financial operations and foreign exchange profit (loss), totaled Ch$112,565 million in the year ended December 31, 2014, a decrease of 9.5% compared to the same period in 2013. These results include the results of our Treasury Division's trading business and financial transactions with customers, as well the results of our Financial Management Division.

Net income from financial operations was a loss of Ch$159,647 million in 2014 compared to a loss of Ch$20,289 million in 2013. The higher loss from financial operations in 2014 compared to 2013 was mainly due to:

(i) Higher losses from derivatives classified as trading. In 2014, the average yearly exchange rate depreciated 15.2% compared to 1.8% in 2013. Movements in foreign currency affect this line item because it includes the valuation adjustments of our derivatives classified as trading. The Bank's spot position includes all assets and liabilities in foreign currency and assets and liabilities in Ch$ linked to U.S.$ that are not derivatives. Internal policy prohibits us from opening a large exposure in foreign currency, but we usually have more liabilities in foreign currency (mainly US$) than assets in our spot position due to our long-term funding in foreign currency and deposits denominated in foreign currencies from Chilean exporters. This net foreign currency liability spot position is hedged using different instruments. Our long-term foreign currency funding is hedged with cross-currency swaps that are matched and are accounted under hedge accounting rules. Therefore, the liability and the corresponding hedge are recognized in foreign exchange profits, described below and not in this line item. Excluding this part of our funding in foreign currency, we are left with the foreign currency deposits and other short-term foreign currency funding mechanisms, which are smaller than the foreign currency assets, mainly loans and cash. This difference is hedged with derivatives that are accounted as trading derivatives. As the peso depreciated against the dollar in 2014 at a higher rate than in 2013, the loss from derivatives classified as trading rose. For more details, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management—Market risk – local and foreign financial management."

(ii) This was partially offset by higher gains from our investment portfolio classified as trading. In this line item the mark-to-market and interest income of the trading portfolio are recognized. In 2014, the higher UF inflation increased interest from this portfolio and falling interest rates increased the mark-to-market gains. This explains the 53.2% increase in results from the trading portfolio compared to 2013, which totaled Ch$45,952 million.

The net result from foreign exchange transactions totaled a gain of Ch$272,212 million in 2014 compared to Ch$144,726 million This difference was mainly the result of the greater depreciation of the Chilean peso against the U.S. dollar in 2014 compared to 2013. This line item includes the net result of our spot position in foreign currency.

The effects on net income from the change in value of our spot foreign currency position are generally positive if the peso appreciates and negative if the peso depreciates as our spot funding base in foreign currency is larger than our spot asset position in foreign currency. As mentioned above, in general we do not open large exposures in foreign currency. The net foreign currency liability spot position is hedged using different instruments. Our long-term funding is hedged with cross-currency swaps that are matched and are accounted under hedge accounting rules. Therefore, the net liability spot position and the portion hedge with derivatives that are valued under hedge accounting are recognized in foreign exchange profits. The depreciation of the peso in 2014 led to a larger loss in the net profit or loss from foreign currency exchange, which reflects the value of our spot foreign currency position. This loss totaled Ch$370,282 million in 2014 compared to a loss of Ch$242,841 million in 2013. At the same time, the results from hedge-accounting derivatives increased from Ch$379,910 million in 2013 to Ch$621,767 million in 2014 arising from the net long position we have in hedge accounting derivatives that hedge our long-term foreign currency funding. For more details, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk—E. Market Risks—Market risk management— Market risk – local and foreign financial management."

By line of business, client treasury services totaled Ch$83,837 million and increased 6.0% in 2014 compared to 2013. The results from Santander Global Connect and market-making mainly include the results from the sale of derivatives, foreign exchange and fixed income instruments to our client base. In 2014, the results from Santander Global Connect increased 13.1%. The depreciation of the peso led to a larger demand for hedging from our Corporate and Companies clients driving this income line. The results from market-making with client services decreased 3.4% in 2014, mainly due to lower business volumes of tailor-made treasury services sold to specific corporate clients. These results may vary year-to-year as some large operations with corporate clients may not be repeated in subsequent years.

The results from non-client treasury income decreased 36.6% and totaled a gain of Ch$28,728 million in 2014 compared to Ch$45,319 million in 2013. These results include the income from sale of loans, including charged-off loans, proprietary trading and the results from our Financial Management Division. The results from the sale of loans increased 88.6% to Ch$6,070 million in 2014. The results from proprietary trading totaled a loss of Ch$1,113 million. The Bank since year-end 2012, no longer has a proprietary trading area and these results are from residual positions that are being closed.

In 2014, income from the Bank's Financial Management Division decreased 46.1% to Ch$23,771 million. This department manages the structural interest rate risk, the structural position in inflation-indexed assets and liabilities, capital requirements and liquidity levels. The aim of the Financial Management Division is to provide stability and continuity in our net interest income from commercial activities, and to ensure that we comply with internal and regulatory limits regarding liquidity, regulatory capital, reserve requirements and market risk. This lower result was mainly due to lower gains obtained from short-term interest rate differential between the U.S. dollar and the Chilean peso. As mentioned, the Bank has a greater spot position in liabilities denominated in foreign currency than assets. These principally U.S. dollar-denominated liabilities are hedged through derivatives, resulting in minimal foreign currency exposure, but this does result in the existence of a short-term interest rate differential between U.S. dollars and Chilean pesos, which produces a financial result registered here. This result is positive when interest rates in the US are trending up and local rates are falling and vice versa. At the same time, our interest expense related to foreign currency exchange rose proportionally. In 2014 and 2013, local rates decreased relative to US rates, but this impact was more significant in 2013 when the end of quantitative easing was announced. This lower result is also partially offset by higher yield on liquidity recognized in net interest income, since the rise in inflation resulted in higher nominal yields earned over the Bank's available for sale fixed income portfolio.

Other operating income

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (In millions of Ch$) | | | | |
| Income from assets received in lieu of payment | 2,455 | 2,811 | 6,571 | (12.7 %) | (57.2 %) |
| Net results from sale of investment in other companies | 617 | - | 78,122 | --% | --% |
| Operational leases | 708 | 805 | 328 | (12.0 %) | 145.4 % |
| Gain on sale of Bank property, plant and equipment | 381 | 687 | 176 | (44.5 %) | 290.3 % |
| Recovery of generic provisions for contingencies | - | 315 | 77 | --% | 309.1 % |
| Insurance coverage for earthquake | 435 | 661 | 725 | (34.2 %) | (8.8 %) |
| Other | 1,843 | 1,266 | 2,156 | 45.6 % | (41.3 %) |
| Sub-total other income | 3,367 | 3,734 | 3,462 | (9.8 %) | 7.9 % |
| Total other operating income | 6,439 | 6,545 | 88,155 | (1.6 %) | (92.6 %) |

*For the years ended December 31, 2015 and 2014.* Total other operating income fell 1.6% in 2015 compared to 2014 and totaled a gain of Ch$6,439 million. Other operating income was negatively affected by lower gains from income received from assets in lieu of payment, lower income from operational leases and less payments from insurance coverage for earthquake damages.

*For the years ended December 31, 2014 and 2013*. Total other operating income fell 92.6% in 2014 compared to 2013 and totaled a gain of Ch$6,545 million. This fall was mainly due to the fact that in 2013 we recognized a non-recurring gain from the sale of our asset management subsidiary, Santander Asset Management S.A. Administradora General de Fondos. In December 2013 our subsidiary Santander Asset Management S.A. Administradora General de Fondos was sold through a formal offer of purchase received in May 2013. The sale price was Ch$90,281 million for 100% of the shares. 99.99% were acquired by SAM Investment Holdings Limited and the remaining 0.01% by Santander Asset Management UK Holdings Limited, both related to Grupo Santander. This operation generated a gain of Ch$78,122 million recorded within the net results from sale of investments in other companies. Additionally, the entities entered into a management service agreement for a 10-year period. This transaction was reviewed by independent external evaluators who were of the opinion that the price offered was reasonable in consideration of their fair value appraisals. Based on this appraisal, the Audit Committee and the Board of Directors recommended the transaction. On December 5, 2013 an Extraordinary Shareholders' meeting was held. The offer was accepted and thus, on December 6, 2013 the SBIF was informed of this transaction.

Apart from this item, other operating income was negatively affected by lower gains from income received from assets in lieu of payment as 2013 included various large operations that were not repeated in 2014.

Provision for loan losses

The following table sets forth, for the periods indicated, certain information relating to our provision for loan losses.

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Provision for loan losses | (454,462) | (403,069) | (418,675) | 12.8% | (3.7%) |
| Charge-off of loans analyzed on an individual basis | (12,955) | (10,811) | (8,071) | 19.8% | 33.9% |
| Recoveries on loans previously charged-off | 68,140 | 58,977 | 55,284 | 15.5% | 6.7% |
| Provision for loan losses, net | (399,277) | (354,903) | (371,462) | 12.5% | (4.5%) |
| Year end loans (1) | 25,300,757 | 22,892,649 | 21,060,761 | 10.5% | 8.7% |
| Non-performing loans (2) | 643,468 | 644,327 | 613,301 | (0.1%) | 5.1% |
| Impaired loans (3) | 1,669,340 | 1,617,251 | 1,477,701 | 3.2% | 9.4% |
| Allowance for loan losses (4) | 762,301 | 684,317 | 614,933 | 11.4% | 11.3% |
| Impaired loans / Year end loans (5) | 6.60% | 7.06% | 7.02% | | |
| Non-performing loans / Year end loans (2) | 2.54% | 2.81% | 2.91% | | |
| Allowances for loan losses / Total loans | 3.01% | 2.99% | 2.92% | | |
| Coverage ratio non-performing loans (5) | 118.47% | 106.21% | 100.27% | | |

(1) Includes Ch$10,877 million in 2015, Ch$11,943 million in 2014 and Ch$125,449 million in 2013 in interbank loans.

(2) Non-performing loans include the aggregate unpaid principal and accrued but unpaid interest on all loans with at least one installment at least 90 days past-due.

(3) Impaired loans include: (a) for loans individually evaluated for impairment: (i) the carrying amount of all loans to clients that are rated C1 through C4, D1 and D2 and (ii) the carrying amount of all loans to an individual client with at least one non-performing loan (which is not a residential mortgage loan past due less than 90 days), regardless of category; and (b) for loans collectively evaluated for impairment, the carrying amount of all loans to a client, when at least one loan to that client is not performing or has been renegotiated. See “Note 9—Loans and Accounts Receivables from Customers—(a) Loans and accounts receivables from customers” in the Audited Consolidated Financial Statements.

(4) Includes Ch$1,166 million in 2015, Ch$1 million in 2014 and Ch$495 million in 2013 in allowance for loan losses for interbank loans.

(5) Calculated as allowance for loan losses divided by non-performing loans.

*For the years ended December 31, 2015 and 2014*. Provisions for loan losses, net of recoveries totaled Ch$399,277 million in 2015 and increased 12.5% compared to the amount of provisions recorded in 2014.

Provision for loan losses, which includes the full amount of provisions recognized as a result of loan growth and change in risk classification as well as the net result of provisions and charge-offs of loans analyzed on a group basis, totaled Ch$454,462 million in 2015 compared to Ch$403,069 million in 2014 and increased 12.8%. The following table breaks down provision for loans losses by loan product for the years ended December 31, 2015, 2014 and 2013.

| | 2015 | 2014 | 2013 | % Change 2015/2014 | 2014/2013 |
|---|---|---|---|---|---|
| | (in millions of Ch$) | | | | |
| Interbank loans | (1,165) | 494 | (336) | --% | --% |
| Commercial loans | (197,247) | (203,454) | (157,558) | (3.1%) | 29.1% |
| Mortgage loans | (27,168) | (18,346) | (33,271) | 48.1% | (44.9%) |
| Consumer loans | (230,811) | (180,666) | (222,964) | 27.8% | (19.0%) |
| Contingent loans | 1,929 | (1,097) | (4,546) | (275.8%) | (75.9%) |
| Total(1) | (454,462) | (403,069) | (418,675) | 12.8% | 3.7% |

(1) Includes the full amount of provisions recognized as a result of loan growth and change in risk classification as well as the net result of provisions and charge-offs of loans analyzed on a group basis

Provisions established for the Bank’s consumer loans increased by 27.8% to Ch$230,811 million in 2015 compared to 2014. During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for consumer loans. The models were calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of

these improvements consisted of the advancement of the models' governance allowing technical and decisional approvals at different points of the approval process, more robust statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes in 2014 resulted in the release of consumer provisions of Ch$26,563 million in 2014. As this is a change in estimation, this improvement was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8. See "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information-Classification of Loan Portfolio— Classification of Loan Portfolio-Loans analyzed on a group basis—Allowances for consumer loans."

Excluding this effect in 2014, consumer loan loss provisions grew 11.4%. This rise was mainly due to: (i) consumer loan growth, which reached 5.9% year over year in 2015 compared to 2014, and (ii) greater charge-offs of consumer loans assessed on a group basis. In light of lower economic growth, the Bank restricted renegotiations of consumer loans for customers presenting payment difficulties and this resulted in higher charge-offs. As a result of this policy, the consumer non-performing loans ratio reached 2.7% in 2015 compared to 2.5% in 2014 as more clients became non-performing. Overall asset quality trends, measured according to the impaired consumer loan ratio, remained healthy in 2015. The impaired consumer loan ratio decreased from 9.3% in 2014 to 8.9% in 2015 as growth in the consumer loan book was focused on high income earners that are usually less risky.

Provision expense in commercial lending decreased 3.1% in 2015 compared to 2014. During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for commercial loans analyzed on a group basis. The models were calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of the advancement of the models' governance allowing technical and decisional approvals at different points of the approval process, more robust techniques of statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in an increase in commercial provisions of Ch$45,141 million. As this is a change in estimation, this impact was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8.

Excluding this impact, provisions for commercial loans grew 24.6% in the period being analyzed. This rise was mainly due to higher provisions in Global corporate banking as the Bank downgraded various corporate clients affected by the slower economic environment, but which have not yet entered non-performing status. On the other hand, asset quality in commercial loans in retail banking improved throughout 2015, as the Bank focused growth on less risky commercial retail customers. The NPL ratio in commercial loans decreased from 3.0% in 2014 to 2.6% in 2015 mainly due to improvements in asset quality in retail banking. The impaired commercial loan ratio reached 7.1% in 2015 compared to 7.2% at year-end 2014.

Provisions for mortgage loans increased 48.1% in 2015 compared to 2014. This rise was mainly due to: (i) mortgage loan growth, which increased 17.8% in the period being analyzed, and (ii) greater charge-offs of mortgage loans. In light of lower economic growth, the Bank has been restricting the renegotiations of mortgage loans for customers presenting some payment difficulties and this resulted in higher charge-offs. The Bank also focused mortgage loan growth on higher income earners that in general are less risky. As a result of the change in the loan mix and the higher

charge-offs, mortgage loan asset quality improved in 2015 compared to 2014. The non-performing ratio for mortgage loans declined from 2.7% in 2014 to 2.1% in 2015. The impaired mortgage loans ratio also improved from 5.6% in 2014 to 5.1% in 2015.

For a description of the provisions related to our residential mortgage loans and commercial loans analyzed on a group basis, please see "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio—Loans analyzed on a group basis—Allowances for residential mortgage loans" and "—Loans analyzed on a group basis—Small and mid-sized commercial loans."

Additionally, the lower economic growth in 2015 resulted in a rise in charge-off of loans analyzed on an individual basis that totaled Ch$12,955 million in 2015 and rose 19.8% compared to 2014.

Recoveries on loans previously charged-off increased 15.5% in 2015 compared to 2014. This was due to higher recoveries of charged-off commercial and residential mortgage loans mainly due to improved recovery efforts, especially in the Middle-market segment. As the Bank has improved the asset quality in consumer lending, the growth rate of recoveries has also diminished. The following table shows recoveries of loans previously charged-off by type of loan.

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Recovery of loans previously charged-off | | | | | |
| Consumer loans | 35,565 | 36,908 | 36,004 | (3.6 %) | 2.5 % |
| Residential mortgage loans | 6,543 | 5,122 | 4,735 | 27.7 % | 8.2 % |
| Commercial loans | 26,032 | 16,947 | 14,545 | 53.6 % | 16.5 % |
| Total recoveries | 68,140 | 58,977 | 55,284 | 15.5 % | 6.7 % |

In some instances, we will sell a portfolio of charged-off loans to a third party. Gain (loss) on these charged-off loans is recognized as net income from financial transactions as disclosed in "Note 27—Profit and Loss from Financial Operations" of our Audited Consolidated Financial Statements. The following table sets forth information about our sale of charged-off loans for the year ended December 31, 2015, 2014 and 2013.

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Gains on sale of loans previously charged-off | (58) | 4,809 | 1,500 | -% | 220.6 % |

The following table sets forth, for the periods indicated, our net provision expense broken down by business segment:

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Retail banking | (332,657) | (325,621) | (315,982) | 2.2 % | 3.1 % |
| Middle-market | (26,147) | (22,034) | (41,064) | 18.7 % | (46.3 %) |
| Global corporate banking | (28,426) | 1,924 | (14,697) | --% | (113.1 %) |
| Other | (12,047) | (9,172) | 281 | 31.3 % | --% |
| Total provisions, net | (399,277) | (354,903) | (371,462) | 12.5 % | (4.5 %) |

Net provisions expense from retail banking increased 2.2% in 2015 compared to 2014. Excluding the net impact of Ch$18,578 million as a result of modifications made to the provisioning models for loans assessed on a group basis done in 2014, provision expense in retail banking increased 8.3%. This rise was mainly due to: (i) retail loan growth that totaled 12.1% in 2015 compared to 2014, and (ii) greater charge-offs. The Bank, in light of slower economic

growth, restricted renegotiations of retail loans, which resulted in a greater amount of loans being charged-off.

Net provision expense from in the Middle-market segment increased 18.7% compared to 2014. In 2015, the Bank performed various downgrades of specific clients mainly in the salmon industry.

Net provision expense from Global corporate banking totaled a loss of Ch$28,426 million compared to net reversal of Ch$1,924 million in 2014. In 2015, the Bank downgraded specific clients in the non-bank financial sectors and a client in the agro-industrial sector due to company specific weaknesses.

Total provisions, net included in Others reached Ch$12,047 million compared to the Ch$9,172 million. In Other provision expense we include the impact of the fluctuation of the exchange rate on our provision expense. Of our total loan book, 13.3% is in foreign currency, mainly in dollars and consisting of short-term foreign trade loans. When the peso depreciates, as was the case in 2015 and 2014, the amount of provisions set aside for these loans translated to local currency rises. This impact has a corresponding hedge recognized in the results from financial transactions and for this reason it is not assigned to any reporting segment.

We believe that our loan loss allowances are currently adequate for all known and estimated incurred losses.

*For the years ended December 31, 2014 and 2013*. Provisions for loan losses, net of recoveries totaled Ch$354,903 million in 2013 and decreased 4.5% compared to the amount of provisions recorded in 2013.

Provision for loan losses, which includes the full amount of provisions recognized as a result of loan growth and change in risk classification as well as the net result of provisions and charge-offs of loans analyzed on a group basis, totaled Ch$403,069 million in 2014 compared to Ch$418,675 million in 2013 and decreased 3.7%.

Provisions established for the Bank's consumer loans decreased by 19.0% to Ch$180,666 million in 2014 compared to 2013. It is also important to point out that since 2012, the Bank has been pursuing a strategy of growing in higher income and less riskier segments in consumer lending and reducing relative exposure to the lower end of the consumer segment, which is mainly attended by Santander Banefe. This has resulted in improvements in asset quality of our consumer loan book. The non-performing ratio for consumer loans declined from 2.6% in 2013 to 2.5% in 2014 and the impaired mortgage loans ratio also improved from 9.7% in 2013 to 9.3% in 2014.

During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for consumer loans. The models were calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of the advancement of the models' governance allowing technical and decisional approvals at different points of the approval process, more robust statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in the release of consumer provisions of Ch$26,563 million in 2014. As this is a change in estimation, this improvement was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8. See "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information-Classification of Loan Portfolio— Classification of Loan Portfolio-Loans analyzed on a group basis—Allowances for consumer loans."

This reduction in provision expense in consumer lending was offset by the 29.1% rise in provision for loan losses in commercial lending, which totaled Ch$203,454 million in 2014. During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for commercial loans analyzed on a group basis. The models were calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of the advancement of the models' governance allowing technical and decisional approvals at different points of the approval process, more robust techniques of statistical processes and more historical information, allowing stronger parameters of the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in an increase in commercial provisions of Ch$45,141 million. As this is a change in estimation, this impact was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8.

At the same time in 2014, the lower economic growth also negatively affected asset quality in commercial loans, especially in the SME segment. This is reflected in the ratio of commercial impaired loans to total commercial loans

rose from 6.9% in 2013 to 7.2% in 2014, mainly due to a rise in impaired loans in the SME segment that is more sensitive to economic cycles and the lower investment rates. In the middle-market and institutions and the global banking and markets segments, asset quality indicators were stable in 2014 compared to 2013.

Provisions for mortgage loans decreased 44.9% in 2014 compared to 2013. This decrease was due to:

(i) The non-performing ratio for mortgage loans declined from 2.8% in 2013 to 2.7% in 2014 and the impaired mortgage loans ratio also improved from 5.7% in 2013 to 5.6% in 2014.

(ii) Simultaneously in 2013, the Bank resolved a class action suit brought by CONADECUS, a consumer protection group, and renegotiated a group of residential mortgage loans that had a bullet payment due in 2013, which were offered to clients in 2010, following the earthquake. This also led to the rise in impaired residential mortgage loans and provisions in that year.

For a description of the provisions related to our residential mortgage loans and commercial loans analyzed on a group basis, please see "Item 5. Operating and Financial Review and Prospects—C. Selected Statistical Information—Classification of Loan Portfolio—Classification of Loan Portfolio—Loans analyzed on a group basis—Allowances for residential mortgage loans" and "—Loans analyzed on a group basis—Small and mid-sized commercial loans."

Additionally, the lower economic growth in 2014 resulted in a rise in charge-off of loans analyzed on an individual basis that totaled Ch$10,811 million in 2014 and rose 33.9% compared to 2013.

Recoveries on loans previously charged-off increased 6.7% in 2014 compared to 2013. This was due to higher recoveries of charged-off commercial loans, indirectly a reflection of higher charge-offs in the SME segment As the Bank has improved the asset quality in consumer lending, the growth rate of recoveries has also diminished.

By business segments in 2014, net provision expense in retail banking grew 3.1% mainly due to the net effect of the change in provisioning models for loans assessed on a group basis and weaker asset quality in SMEs. This was partially offset by improved credit quality of consumer loans.

Net provision expense from the Middle-market decreased 46.3%. In 2013, the Bank performed various downgrades of specific clients in the retails, salmon, fishery and construction sectors that were not repeated in 2014.

Net provision expense from Global corporate banking totaled a net reversal of Ch$1,924 million compared to a net loss of Ch$14,697 million in 2013 when the Bank downgraded specific clients in the construction and retail sectors, which did not occur in 2014.

Operating expenses

The following table sets forth information regarding our operating expenses in the years ended December 31, 2015, 2014 and 2013.

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Personnel salaries and expenses | (387,063) | (338,888) | (308,344) | 14.2 % | 9.9 % |
| Administrative expenses | (220,531) | (205,149) | (188,191) | 7.5 % | 9.0 % |
| Depreciation and amortization | (53,614) | (44,172) | (61,074) | 21.4 % | (27.7 %) |
| Impairment | (21) | (36,664) | (244) | (99.9 %) | 14,926.2 % |
| Other operating expenses | (58,729) | (58,946) | (52,338) | (0.4 %) | 12.6 % |
| Total operating expenses | (719,958) | (683,819) | (610,191) | 5.3 % | 12.1 % |
| Efficiency ratio(1) | 43.8 % | 41.1 % | 40.2 % | | |

(1) The efficiency ratio is the ratio of total operating expenses to total operating income. Total operating income consists of net interest income, fee income, financial transactions, net and other operating income.

*For the years ended December 31, 2015 and 2014*. Operating expenses in the year ended December 31, 2015 increased 5.3% compared to the corresponding period in 2014. The efficiency ratio was 43.8% in 2015, 41.1% in 2014 and 40.2% in 2013.

The 14.2% increase in personnel salaries and expenses was mainly due to an increase in personnel compensation, higher severance payments and greater costs related to benefits included in the Bank's collective bargaining agreement. The 9.5% increase in personnel compensation, which totaled Ch$233,707 million in 2015, was mainly due to: (i) growth in total headcount of 2.1% to 11,723 people, (ii) the impact of the Bank's meritocracy policies and (iii) the impact of CPI inflation on wages. In 2015, CPI inflation was 4.4% and all salaries are indexed to inflation per collective bargaining agreement. Severance payments increased 222.4% to Ch$34,051 million. The Bank in 2015 executed a program to eliminate high level management positions in order to mitigate cost growth which entailed greater severance payments. In March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on October 1, 2014, and which will expire on December 31, 2018. This resulted in an increase in certain benefits related to the Bank's health insurance fund and other benefits.

Administrative expenses increased 7.5% in the year ended December 31, 2015 compared to the corresponding period in 2014. The increase in administrative expenses was mainly due to the 14.3% increase in maintenance, repair of property, plant and equipment, which totaled Ch$20,002 million. In 2015, the Bank continued to refurbish branches, open new Santander Select branches, expand the number of Middle-market centers and close Santander Banefe branches and other payment centers.

| | Year ended December 31, | | % Change |
|---|---|---|---|
| | **2015** | **2014** | **2015/2014** |
| Traditional branches | 276 | 273 | 1.1% |
| Middle-market centers | 8 | 5 | 60.0% |
| Santander Select | 53 | 51 | 3.9% |
| Banefe and other payment centers | 134 | 145 | (7.6%) |
| **Total branches** | **471** | **474** | **(0.6%)** |

The Bank's total Outsourced service expenses increased 21.8% in 2015 compared to 2014 and totaled Ch$39,286 million. The Bank outsources various functions especially data processing and IT services. These increased as a result of the depreciation of the peso against the Euro, since several of the firms that provide the Bank with IT services are in Spain. Imbedded in the Bank results from financial transactions, net is an offsetting result, since this exposure to foreign currency is hedged. Finally the Bank marketing expenses rose 12.6% to Ch$18,483 million as the Bank promoted more intensively various new products and was a sponsor for the Copa America tournament held in Chile in 2015.

Impairment charges totaled Ch$21 million in 2015 compared to Ch$36,664 million in 2014. In 2014, the Bank initiated a plan to transform its business and operating model with a better focus on the client. In 2014, the Bank evaluated a number of applications that were in use or in development and tested them for impairment. Following the testing, in accordance with IAS 36, the Bank has recognized an impairment of Ch$36,556 million in 2014 due to the abandonment of unnecessary systems.

Depreciation and amortization expense increased 21.4% in 2015 compared to 2014 and totaled Ch$53,614 million. This rise was mainly due to the increase in depreciation of equipment that reached Ch$18,417 million in 2015 compared to Ch$12,331 million in 2014. This in line with the greater investments in hardware and other equipment as the Bank modernizes its branch network and systems.

Other operating expenses were Ch$58,729 million in 2015, a 0.4% decrease compared to 2014. In 2015, customer service expenses, which are related to our phone banking service, decreased 60.6% due to cost restructurings. Additionally in 2015, the Bank had less expenses related to adopting chip technology on cards. These lower other operating expenses were offset by greater provisions for assets received in lieu of payment. See "Note 33—Other operating income and expenses" to our Audited Consolidated Financial Statements for more detail on Other operating expenses.

The following table sets forth, for the periods indicated, our personnel salaries, administrative and depreciation and amortization expenses broken down by business segment. These amounts exclude impairment and other operating

expenses.

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Retail banking | (533,086) | (479,954) | (435,837) | 11.1 % | 10.1 % |
| Middle-market | (77,261) | (66,321) | (62,817) | 16.5 % | 5.6 % |
| Global corporate banking | (49,533) | (44,195) | (38,270) | 12.1 % | 15.5 % |
| Other | (1,328) | 2,261 | (20,685) | --% | (110.9 %) |
| Total personnel, administrative expenses, depreciation and amortization (1) | (661,208) | (588,209) | (557,609) | 12.4 % | 5.5 % |

(1) Excludes impairment and other operating expenses.

By business segment, the 12.4% increase in costs excluding impairment and other operating expenses in 2015 compared to the corresponding period in 2014 was mainly due to the 11.1% increase in costs incurred in retail banking. In 2015, the Bank continued with its strategy of shifting its strategic focus away from retail clients attended in the Santander Banefe branch network and more towards high income earners and small and mid-sized enterprises. This implied additional costs mainly in our distribution network and technology. Costs in the Middle-market segment grew 16.5% in 2015 compared to 2014 as this segment was a growth priority during the year, increasing in terms of size of balance sheet and headcount. Finally, costs in Global corporate banking rose 12.1% in line with business growth in this segment, especially in transactional banking and cash management services that are intense

in data processing. All segments costs were also affected by the depreciation of the peso against the euro in 2015, which as previously mentioned has a negative impact on IT costs denominated in that currency and that this foreign currency exposure is hedged, the results of which are recognized in financial transactions, net.

*For the years ended December 31, 2014 and 2013*. Operating expenses in the year ended December 31, 2014 increased 12.1% compared to the corresponding period in 2013. The 9.9% increase in personnel salaries and expenses was mainly due to: (i) a 7.9% increase in personnel compensation which totaled Ch$213,364 million in 2014. Total headcount fell 0.3% to 11,478 people, but the higher inflation rate resulted in larger wage increases as well as the impact of the Bank's meritocracy policies; (ii) a 13.8% increase in bonuses which totaled Ch$77,145 million, following a positive year for the Bank both in terms of financial and business goals; (iii) severance payments increased 19.5% to Ch$10,551 million; and (iv) in March 2014, a new collective bargaining agreement was signed with the main unions, which became effective on October 1, 2014, and which will expire on December 31, 2018. This resulted in an increase in certain benefits related to the Bank's health insurance fund and other benefits.

Administrative expenses increased 9.0% in the year ended December 31, 2014 compared to the corresponding period in 2013. The increase in administrative expenses was mainly due to the 13.9% increase in maintenance, repair of property, plant and equipment, which totaled Ch$17,498 million and the 7.6% rise in security services expenses that totaled Ch$17,089 million. In 2014, the Bank continued to refurbish branches, open new Santander Select branches and close Santander Banefe branches. The Bank also had to continue to increase the expenditure dedicated to securing and protecting ATM machines given the increase in theft and more regulations regarding ATM security. The rise in costs was also due to the 8.6% increase in office lease due to the higher inflation rate as these contracts are indexed to inflation. The Bank's total branch network decreased from 493 offices to 474, but increased in areas of higher leasing costs due to the strategic shift towards higher income clients.

Depreciation and amortization expense decreased 27.7%, mainly due to the lower depreciation and amortization of intangible assets. In 2014, the Bank, following an extensive analysis of its intangible assets, performed an extraordinary charge-off of those intangible assets, mainly software, that were obsolete or were not contributing to the Bank's business or earnings.

Impairment charges increased 14,926.2% in 2014 compared to 2013 and totaled Ch$36,664 million. The Bank initiated a plan to transform its business and operating model with a better focus on the client. Therefore, there have arisen a number of new requirements for the Bank to adapt to changing customer demands and establish new ways to interact with them. As a result of this change in strategy, the Bank evaluated a number of applications that were in use or in development and tested them for impairment. Following the testing, in accordance with IAS 36, the Bank has recognized an impairment of Ch$36,556 million in 2014 due to the abandonment of unnecessary systems.

Other operating expenses were Ch$58,946 million in 2014, a 12.6% increase compared to 2013. This increase was mainly due to higher provisions for contingencies that totaled Ch$13,080 million in 2014 compared to Ch$5,805

million in 2013. Compared to 2013, the rise in provision for contingencies was due to Ch$5 billion for future severance payments and Ch$2.4 billion for future costs related to chip technology for cards. This reflects the pending expense for customers that have yet to change their debit or credit card with the new chip technology, which is an on-going process. See “Note 33—Other operating income and expenses” and “Note 20-Provisions” to our Audited Consolidated Financial Statements for more detail on Other operating expenses.

By business segment, the 5.5% increase in costs excluding impairment and other operating expenses in 2014 compared to the corresponding period in 2013 was mainly due to the 15.5% increase in costs incurred in Global corporate banking in line with business growth in this segment. Costs in Retail banking increased 10.1% in 2014 compared to 2013. In 2014, the Bank continued with its strategy of increasing presence in this segment, which implied additional costs as a result of this expansion plan mainly in our distribution network and technology. Costs in the Middle-market segment increased 5.6% due to greater business activity.

Income tax

| | Year ended December 31, | | | % Change | % Change |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015/2014 | 2014/2013 |
| | (in millions of Ch$) | | | | |
| Net income before tax | 528,124 | 626,940 | 538,959 | (15.8 %) | 16.3 % |
| Income tax expense | (76,395 ) | (51,050 ) | (94,530 ) | 49.6 % | (46.0 %) |
| Effective tax rate(1) | 14.5 % | 8.1 % | 17.5 % | | |

(1) The effective tax rate is the income tax expense divided by net income before tax.

*For the years ended December 31, 2015 and 2014*. Total income tax expense by the Bank in 2015 totaled Ch$76,395 million, a 49.6% increase compared to 2014. The Bank paid an effective tax rate of 14.5% in 2015 compared to 8.1% in 2014. The higher effective tax rate was mainly due to:

(i) the statutory corporate tax rate increased from 21% in 2014 to 22.5% in 2015. In 2016, the statutory corporate tax rate will rise to 24%, 25.5% in 2017 and 27% in 2018;

(ii) income tax expenses in included non-cash income of Ch$10,600 million in 2015 from the re-adjustments made to the Bank's deferred tax asset base following passage of the new tax law compared to Ch$39,262 million in 2014. The Bank has more deferred tax assets than liabilities. This gain arises from the difference between the Bank's accounting and tax books regarding how provisions and charge-offs are recognized. When the statutory rates were modified, the Bank's net deferred tax assets increased as the future tax rates used to calculate this asset were gradually increased from 20% to 27%;

(iii) the lower CPI inflation rate in 2015 compared to 2014 also resulted in lower permanent differences since the Bank, for Chilean tax purposes, must re-value its capital each year for the variation in CPI inflation. The table below demonstrates the effective tax rate reconciliation. See "Note 14—Current and Deferred Taxes" of the Audited Consolidated Financial Statements for more detail on income tax expense.

| | As of December 31, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Tax rate % | Amount Ch$mn | Tax rate % | Amount Ch$mn |
| Tax calculated over profit before tax | 22.5 | 118,828 | 21.0 | 131,657 |
| Permanent differences | (5.4 ) | (28,630 ) | (6.2 ) | (38,724 ) |
| Single penalty tax (rejected expenses) | 0.1 | 340 | 0.1 | 746 |
| Effect of tax reform changes on deferred tax | (2.0 ) | (10,600 ) | (6.3 ) | (39,262 ) |
| Real estate taxes | (0.7 ) | (3,853 ) | (0.5 ) | (3,357 ) |

| | | | | |
|---|---|---|---|---|
| Other | 0.1 | 310 | - | (10 ) |
| Effective rates and expenses for income tax | 14.5 | 76,395 | 8.1 | 51,050 |

*For the years ended December 31, 2014 and 2013*. Total income tax expense by the Bank in 2014 totaled Ch$51,050 million, a 46.0% decrease compared to 2013. The Bank paid an effective tax rate of 8.1% in 2014 compared to 17.5% in 2014. Income tax expenses in 2014 included a one-time non-cash income of Ch$39,262 million from the re-adjustments made to the Bank's deferred tax asset base following passage of the new tax law. The Bank has more deferred tax assets than liabilities. This gain arises from the difference between the Bank's accounting and tax books regarding how provisions and charge-offs are recognized. When the statutory rates were modified, the Bank's net deferred tax assets increased as the future tax rates used to calculate this asset were gradually increased from 20% to 27%. The higher CPI inflation rate in 2014 compared to 2013 also resulted in greater permanent differences since the Bank, for Chilean tax purposes, must re-value its capital each year for the variation in CPI inflation. The table below demonstrates the effective tax rate reconciliation. See "Note 14—Current and Deferred Taxes" of the Audited Consolidated Financial Statements for more detail on income tax expense.

B. Liquidity and Capital Resources

Sources of Liquidity

Santander-Chile's liquidity depends upon its (i) capital, (ii) reserves and (iii) financial investments, including investments in government securities. To cover any liquidity shortfalls and to augment its liquidity position, Santander-Chile has established lines of credit with foreign and domestic banks and also has access to Central Bank borrowings.

The following table sets forth our contractual obligations and commercial commitments by time remaining to maturity. As of the date of the filing of this Annual Report, the Bank does not have significant purchase obligations. As of December 31, 2015, the scheduled maturities of our contractual obligations and of other commercial commitments, including accrued interest, were as follows:

| Contractual Obligations | Demand | Up to 1 month | Between 1 and 3 months | Between 3 and 12 months | Subtotal up to 1 year | Between 1 and 5 years | More than 5 years | Subtotal after 1 year | Total |
|---|---|---|---|---|---|---|---|---|---|
| | (in millions of Ch$) | | | | | | | | |
| Obligations under repurchase agreements | - | 143,689 | - | - | 143,689 | - | - | - | 143,68 |
| Checking accounts, time deposits and other time liabilities (1) | 7,932,619 | 5,707,940 | 3,210,947 | 2,853,761 | 19,705,267 | 238,933 | 56,845 | 295,778 | 20,001 |
| Financial derivative contracts | - | 126,643 | 190,409 | 380,158 | 697,210 | 1,016,731 | 1,148,665 | 2,165,396 | 2,862, |
| Interbank borrowings | 27,323 | 7,946 | 148,509 | 684,819 | 868,597 | 438,977 | - | 438,977 | 1,307, |
| Issued debt instruments | 1,953 | 440,500 | 155,821 | 213,928 | 812,202 | 2,764,082 | 2,380,811 | 5,144,893 | 5,957, |
| Other financial liabilities (2) | 129,358 | 3,142 | 558 | 3,114 | 136,172 | 68,027 | 16,328 | 84,355 | 220,52 |
| Subtotal | 8,091,253 | 6,429,860 | 3,706,244 | 4,135,780 | 22,363,137 | 4,526,750 | 3,602,649 | 8,129,399 | 30,492 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Contractual interest payments (3) | 2,075 | 66,964 | 141,529 | 553,736 | 764,304 | 1,814,540 | 905,460 | 2,720,000 | 3,484, |
| Total | 8,093,328 | 6,496,824 | 3,847,773 | 4,689,516 | 23,127,441 | 6,341,290 | 4,508,109 | 10,849,399 | 33,976 |

(1) Includes demand deposits and other demand liabilities, cash items in process of being cleared and time deposits and other time liabilities.

(2) Mainly includes amounts owed to credit card processors and to the Chilean Production Development Corporation (*Corporación de Fomento de la Producción de Chile*), the state development agency.

(3) The table above includes future cash interest payments. For variable rate obligations, we assume the same rate as the last rate known. Various of the payment obligations in the table above are variable debt instruments, since they are denominated in UF, for which we have estimated a long-term inflation rate equal to 3%, which is at the center of the Central Bank's long-term inflation target. No exclusions requiring further explanation have been made in this table.

Operational Leases

Certain bank premises and equipment are leased under various operating leases. Future minimum rental commitments as of December 31, 2015 under non-cancelable leases are as follows:

| | As of December 31, 2015 (in millions of Ch$) |
|---|---|
| Due within 1 year | 22,303 |
| Due after 1 year but within 2 years | 20,862 |
| Due after 2 years but within 3 years | 19,499 |
| Due after 3 years but within 4 years | 17,215 |
| Due after 4 years but within 5 years | 14,154 |
| Due after 5 years | 55,561 |
| Total | 149,594 |

Other Commercial Commitments

As of December 31, 2015, the scheduled maturities of other commercial commitments, including accrued interest, were as follows:

| Other Commercial Commitments | Up to 1 month | Between 1 and 3 months | Between 3 and 12 months | Between 1 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| | (in millions of Ch$) | | | | | |
| Guarantees | 89,430 | 142,285 | 714,747 | 709,844 | 28,541 | 1,684,847 |
| Confirmed foreign letters of credit | 16,522 | 12,504 | 6,535 | 34,872 | - | 70,434 |
| Letters of credit issued | 39,552 | 100,407 | 37,753 | 1,330 | - | 179,042 |
| Pledges and other commercial commitments | 11,935 | 11,179 | 58,629 | 82,212 | - | 163,955 |
| Total other commercial commitments | 157,440 | 266,375 | 817,664 | 828,258 | 28,541 | 2,098,278 |

Risk-Weighted Assets and Regulatory Capital

We currently have regulatory capital in excess of the minimum requirement under the current Chilean regulations. According to the General Banking Law, a bank is required to have regulatory capital of at least 8% of its risk-weighted assets, net of required loan loss allowances, and paid-in capital and reserves (*i.e.*, basic capital) of at least 3% of its total assets, net of required loan loss allowances. For these purposes, the regulatory capital of a bank is the sum of: (1) the bank’s basic capital; (2) subordinated bonds issued by the bank valued at their placement price for an amount up to 50% of its basic capital, provided that the value of the bonds is required to be decreased by 20% for each year that elapses during the period commencing six years prior to their maturity; and (3) its voluntary allowances for loan losses, for an amount of up to 1.25% of its risk-weighted assets. Santander-Chile does not have goodwill, but if it did, this value would be required to be deducted from regulatory capital. When calculating risk weighted assets, we also include off-balance sheet contingent loans. The merger of Old Santander Chile and Santiago on August 1, 2002 required a special regulatory pre-approval of the SBIF, which was granted on May 16, 2002. The resolution granting this pre-approval imposed a regulatory capital to risk weighted assets ratio of 12% for the merged bank. This requirement was reduced to 11% by the SBIF effective January 1, 2005. For purposes of weighing the risk of a bank’s assets, the General Banking Law considers five different categories of assets, based on the nature of the issuer, the availability of funds, and the nature of the assets and the existence of collateral securing such assets.

The following table sets forth our consolidated and risk-weighted assets and regulatory capital as of December 31, 2015 and 2014 as required by the SBIF.

| | Consolidated assets as of | Risk-weighted assets[1] |
|---|---|---|

| | December 31, 2015 | December 31, 2014 | December 31, 2015 | December 31, 2014 |
|---|---|---|---|---|
| | (Ch$ million) | | | |
| Asset Balance (Net of allowances) | | | | |
| Cash and deposits in bank | 2,064,806 | 1,608,888 | - | — |
| Unsettled transactions | 724,521 | 531,373 | 80,447 | 90,203 |
| Trading investments | 324,271 | 774,815 | 57,796 | 89,605 |
| Investments under resale agreements | 2,463 | — | 493 | — |
| Financial derivative contracts(2) | 1,425,450 | 1,154,471 | 1,158,218 | 996,334 |
| Interbank loans | 10,861 | 11,918 | 1,505 | 2,384 |
| Loans and accounts receivables from customers | 24,535,201 | 22,179,938 | 21,480,044 | 19,519,483 |
| Available for sale investments | 2,044,411 | 1,651,598 | 222,784 | 190,137 |
| Investments in other companies | 20,309 | 17,914 | 20,309 | 17,914 |
| Intangibles assets | 51,137 | 40,983 | 51,137 | 40,983 |
| Property, plant and equipment | 240,659 | 211,561 | 240,659 | 211,561 |
| Current taxes | - | 2,241 | - | 224 |
| Deferred taxes | 331,714 | 282,173 | 33,171 | 28,221 |
| Other assets | 1,097,826 | 493,173 | 603,503 | 493,173 |
| Off-balance sheet assets | | | | |
| Contingent loans | 4,516,319 | 3,976,465 | 2,507,530 | 2,265,904 |
| Total | 37,389,948 | 32,937,549 | 26,457,596 | 23,946,126 |

| | | | Ratio | |
|---|---|---|---|---|
| | December 31, 2015 | December 31, 2014 | December 31, 2015 | December 31, 2014 |
| | (Ch$ million) | | % | % |
| Basic capital(3) | 2,734,699 | 2,609,896 | 7.31 | 7.92 |
| Regulatory capital(4) | 3,538,216 | 3,354,702 | 13.37 | 14.00 |

(1) As required by local regulations.

(2) Derivatives are shown as required by Chapter 12-1 RAN of Chilean Bank GAAP guidelines

(3) As a percentage of total assets.

(4) As a percentage of risk weighted assets (BIS ratio).

Financial Investments

Financial assets are classified into the following specified categories: financial assets trading investments at fair value through profit or loss (FVTPL), “held to maturity” investments, “available for sale investments” (AFS) financial assets and “loans and accounts receivable from customers.” The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

Financial assets at FVTPL - Trading investments

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘net income (expense) from financial operations' line item

Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Available for sale investments (AFS investments)

AFS investments are non-derivatives that are either designated as AFS or are not classified as (a) loans and accounts receivable from customers, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss (trading investments).

Financial instruments held by the Bank that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Bank also has investments in financial instruments that are not traded in an active market but that are also classified as AFS investments and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of available for sale investments are recognized in other comprehensive income and accumulated under the heading of Valuation Adjustment. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Bank's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated as the described in f) above. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

a) Trading

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (in millions of Ch$) | | |
| Central Bank and Government Securities | | | |
| Chilean Central Bank bonds | 159,767 | 270,004 | 75,577 |
| Chilean Central Bank notes | - | – | 100 |
| Other Chilean Central Bank and government securities | 123,468 | 461,340 | 189,962 |
| Subtotal | 283,235 | 731,344 | 265,639 |
| Other Chilean Securities | | | |
| Time deposits in Chilean financial institutions | - | – | – |
| Mortgage bonds of Chilean financial institutions | - | – | – |
| Chilean financial institutions bonds | - | – | 10,042 |
| Chilean corporate bonds | 37,630 | 36,339 | 2,229 |
| Other Chilean securities | - | – | – |
| Subtotal | 37,630 | 36,339 | 12,271 |
| Foreign securities | | | |
| Foreign Financial Securities | - | – | – |
| Other foreign financial instruments | - | – | – |
| Subtotal | - | | – |
| Investments in mutual funds | - | – | – |
| Funds managed by related entities | 3,406 | 7,132 | 9,657 |
| Subtotal | **3,406** | **7,132** | **9,657** |
| **Total** | **324,271** | **774,815** | **287,567** |

b) Available for sale

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (in millions of Ch$) | | |
| Central Bank and Government Securities | | | |
| Chilean Central Bank bonds | 687,292 | 381,117 | 364,821 |
| Chilean Central Bank notes | - | 384 | 1,078 |
| Other Chilean Central Bank and government securities | 145,603 | 353,419 | 146,295 |
| Subtotal | 832,895 | 734,920 | 512,194 |
| Other Chilean Securities | | | |
| Time deposits in Chilean financial institutions | 712,859 | 590,382 | 1,011,354 |
| Mortgage bonds of Chilean financial institutions | 29,025 | 31,693 | 33,856 |
| Chilean financial institution bonds | - | – | – |
| Chilean corporate bonds | - | – | – |
| Other Chilean securities | - | – | – |
| Subtotal | 741,884 | 622,075 | 1,045,210 |
| Foreign Financial Securities | | | |
| Central Bank and Government Foreign Securities | - | – | – |
| Other Foreign financial securities | 469,632 | 294,603 | 143,589 |
| Subtotal | **469,632** | **294,603** | **143,589** |
| Total | **2,044,411** | **1,651,598** | **1,700,993** |

c) Held-to-maturity

No financial investments were classified as held-to-maturity as of December 31, 2015, 2014 and 2013.

The following table sets forth an analysis of our investments as of December 31, 2015 by remaining maturity and the weighted average nominal rates of such investments.

| | Within one year | Weighted average Nominal Rate | After one year but within five years | Weighted average Nominal Rate | After five years but within ten years | Weighted average Nominal Rate | After ten years | Weighted average Nominal Rate | Total | Weighted average Nominal Rate |
|---|---|---|---|---|---|---|---|---|---|---|
| | (in millions of Ch$, except rates) | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Trading | | | | | | | | | | |
| Central Bank and Government Securities | | | | | | | | | | |
| Central Bank bonds | 144,470 | 3.9 | 9,249 | 4.3 | 5,753 | 2.0 | 295 | 1.7 | 159,767 | 3.8 |
| Central Bank notes | - | - | - | - | - | - | - | - | - | - |
| Central Bank and government securities | - | - | 78,486 | 4.3 | 12,325 | 3.0 | 32,657 | 3.7 | 123,468 | 4.0 |
| Subtotal | 144,470 | | 87,735 | | 18,078 | | 32,952 | | 283,235 | |
| Other Chilean Securities | | | | | | | | | | |
| Time deposits in Chilean financial institutions | - | - | - | - | - | - | - | - | - | - |
| Mortgage bonds of Chilean financial institutions | - | - | - | - | - | - | - | - | - | - |
| Chilean financial institutions bonds | - | - | - | - | - | - | - | - | - | - |
| Chilean corporate bonds | - | - | - | - | 23,000 | 2.7 | 14,630 | 2.7 | 37,630 | 2.7 |
| Other Chilean securities | - | - | - | - | - | - | - | - | - | - |
| Subtotal | - | | - | | 23,000 | | 14,630 | | 37,630 | |
| Investment in mutual funds | | | | | | | | | | |
| Mutual funds administered by related parties | 3,406 | 0.3 | - | - | - | - | - | - | 3,406 | 0.3 |
| Subtotal | 3,406 | | - | | - | | - | | 3,406 | |
| Total | 147,876 | | 87,735 | | 41,078 | | 47,582 | | 324,271 | |

| | Within one year | Weighted average Nominal Rate | After one year but within five years | Weighted average Nominal Rate | After five years but within ten years | Weighted average Nominal Rate | After ten years | Weighted average Nominal Rate | Total | Weighted average Nominal Rate |
|---|---|---|---|---|---|---|---|---|---|---|
| | (in millions of Ch$, except rates) | | | | | | | | | |
| Available for sale | | | | | | | | | | |
| Central Bank and Government Securities | | | | | | | | | | |
| Central Bank bonds | 69,034 | 1.0 | 484,428 | 4.0 | 133,830 | 4.5 | - | - | 687,292 | 4.0 |
| Central Bank notes | - | - | - | - | - | - | - | - | - | - |
| Central Bank and government securities | 175 | 2.4 | 16,213 | 4.3 | 119,259 | 4.6 | 9,956 | 4.7 | 145,603 | 4.6 |
| Subtotal | 69,209 | | 500,641 | | 253,089 | | 9,956 | | 832,895 | |
| Other Chilean Securities | | | | | | | | | | |
| Time deposits in Chilean financial institutions | 712,859 | 0.4 | - | - | - | - | - | - | 712,859 | 0.4 |
| Mortgage bonds of Chilean financial institutions | 34 | 4.4 | 1,688 | 3.2 | 11,856 | 3.4 | 15,447 | 3.3 | 29,025 | 3.3 |
| Chilean financial institutions bonds | - | - | - | - | - | - | - | - | - | - |
| Chilean corporate bonds | - | - | - | - | - | - | - | - | - | - |
| Other Chilean securities | - | - | - | - | - | - | - | - | - | - |
| Subtotal | 712,893 | | 1,688 | | 11,856 | | 15,447 | | 741,884 | |
| Other financial securities | | | | | | | | | | |
| Central Bank and Government Foreign Securities | - | - | - | - | - | - | - | - | - | - |
| Other Foreign financial securities | 14,157 | 0.5 | 15,326 | 2.0 | 440,149 | 2.9 | - | - | 469,632 | 2.8 |
| Subtotal | 14,157 | | 15,326 | | 440,149 | | - | | 469,632 | |
| Total | 796,259 | | 517,655 | | 705,094 | | 25,403 | | 2,044,411 | |

Working Capital

As a bank, we satisfy our working capital needs through general funding, the majority of which derives from deposits and other borrowings from the public. (See “Item 5. Operating and Financial Review and Prospects—B. Liquidity and

Capital Resources—Deposits and Other Borrowings”). In our opinion, our working capital is sufficient for our present needs.

Liquidity Management

Liquidity management seeks to ensure that, even under adverse conditions, we have access to the funds necessary to cover client needs, maturing liabilities and capital requirements. Liquidity risk arises in the general funding for our financing, trading and investment activities. It includes the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates, the risk of being unable to liquidate a position

in a timely manner at a reasonable price and the risk that we will be required to repay liabilities earlier than anticipated.

The following table sets forth the balance of our liquidity portfolio managed by our Financial Management Division in the manner in which it is presented to the Asset and Liability Committee (ALCO) and the Board. The ALCO has determined that our liquidity portfolio must be comprised of cash plus assets that can be readily convertible into cash either through the Central Bank window, overnight deposits or instruments or the local secondary market. The management of the Bank's liquidity portfolio is performed by the Financial Management Division under rules determined by the ALCO.

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | Ch$ million | |
| Balance as of: | | |
| Financial investments for trading | 324,271 | 774,815 |
| Available for sale investments | 2,044,411 | 1,651,598 |
| Encumbered assets (net) (1) | (77,647) | (112,015) |
| Net cash (2) | (315,415) | 14,774 |
| Net interbank deposits (3) | 1,683,208 | 890,274 |
| Total liquidity portfolio | 3,658,829 | 3,219,446 |

(1) Assets encumbered through repurchase agreements are deducted from the liquidity portfolio

(2) Total cash minus reserve requirement of the Central Bank

(3) Includes overnight deposits in the Central Bank, domestic banks and foreign banks

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | Ch$ million | |
| Average balance as of: | | |
| Financial investments for trading | 405,352 | 571,479 |
| Available for sale investments | 1,902,050 | 1,673,423 |
| Encumbered assets (net) (1) | (74,664) | (97,712) |
| Net cash (2) | (244,186) | (50,554) |
| Net interbank deposits (3) | 1,197,325 | 788,958 |
| Total liquidity portfolio | 3,185,876 | 2,885,594 |

(1) Assets encumbered through repurchase agreements are deducted from the liquidity portfolio

(2) Total cash minus reserve requirement of the Central Bank

(3) Includes overnight deposits in the Central Bank, domestic banks and foreign banks

Our general policy is to maintain liquidity adequate to ensure our ability to honor withdrawals of deposits, make repayments of other liabilities at maturity, extend loans and meet our own working capital needs. Our minimum amount of liquidity is determined by the statutory reserve requirements of the Central Bank. Deposits are subject to a statutory reserve requirement of 9% for demand deposits and 3.6% for Chilean peso-, UF- and foreign currency denominated time deposits with a term of less than a year. See “Item 4. Information on the Company—B. Business Overview—Competition—Regulation and Supervision.” The Central Bank has statutory authority to increase these percentages to up to 40% for demand deposits and up to 20% for time deposits. In addition, a 100% special reserve (*reserva técnica*) applies to demand deposits, deposits in checking accounts, other demand deposits received or obligations payable on sight and incurred in the ordinary course of business, other than deposits unconditionally payable immediately. This special reserve requirement applies to the amount by which the total of such deposits exceeds 2.5 times the amount of a bank’s regulatory capital. Interbank loans are deemed to have a maturity of more than 30 days, even if payable within the following 10 days.

The Central Bank also requires us to comply with the following liquidity limits:

- The sum of the liabilities with a maturity of less than 30 days may not exceed the sum of the assets with a maturity of less than 30 days by an amount greater than our capital. This limit must be calculated in local currency and foreign currencies together as one gap. At December 31, 2015 the percentage of (i) our liabilities with a maturity of less than 30 days in excess of our assets with a maturity of less than 30 days to (ii) our capital and reserves was 41%.

- The sum of the liabilities in foreign currency with a maturity of less than 30 days may not exceed the sum of the assets in foreign currency with a maturity of less than 30 days by more than an amount greater than our capital. At December 31, 2015 the percentage of (i) our liabilities with a maturity of less than 30 days in foreign currency in excess of our assets in foreign currency with a maturity of less than 30 days to (ii) our capital and reserves was 0%, as the Bank had more foreign currency assets than liabilities for the calculation of this limit.

- The sum of the liabilities with a maturity of less than 90 days may not exceed the sum of the assets with a maturity of less than 90 days by more than 2 times our capital. This limit must be calculated in local currency and foreign currencies together as one gap. At December 31, 2015 the percentage of (i) our liabilities with a maturity of less than 90 days in excess of our assets with a maturity of less than 90 days to (ii) our capital and reserves was 46%.

We have set other liquidity limits and ratios that minimize liquidity risk. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk."

Cash Flow

The tables below set forth our main sources of cash. The subsidiaries are not an important source of cash flow for us and therefore have no impact on our ability to meet our cash obligations. No legal or economic restrictions exist on the ability of subsidiaries to transfer funds to us in the form of loans or cash dividends as long as these subsidiaries abide by the regulations of the *Ley de Sociedad Anónimas* regarding loans to related parties and minimum dividend payments. See our Consolidated Statements of Cash Flows in our Audited Consolidated Financial Statements for a detailed breakdown of the Bank's cash flow.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | Millions of Ch$ | | |
| Net cash provided by (used in) operating activities | 687,796 | 282,423 | 645,166 |

Our operating activities generated cash of Ch$687,796 million in 2015. The consumption of cash due to loan growth and interest paid was more than offset by growth of deposits and interest and fee income received. Cash flow provided by total deposits was Ch$2,513,690 million in 2015 compared to Ch$1,466,272 million in 2014. Our operating

activities generated cash of Ch$282,423 million in 2014. The consumption of cash due to loan growth and the expansion of our financial investments was more than offset by growth of deposits and other liabilities, but at a slower pace than in 2015. In 2013, operating activities generated cash in an amount of Ch$645,166 million. In said year, loan growth was financed through income, deposits, a decline in financial investments and mortgage bond issuances.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | | 2013 |
| | Millions of Ch$ | | |
| Net cash (used in) provided by investment activities | (92,865) | (92,666) | 30,000 |

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In 2015, the Bank's investment activities consumed cash in an amount of Ch$92,865 million. This was mainly due to the purchases of property, plant and equipment and the acquisition of intangibles. In 2014, the Bank's investment activities consumed cash in an amount of Ch$92,666 million. This was also mainly due to the purchases of property, plant and equipment and the acquisition of intangibles. In 2013, we sold our asset management business for Ch$90,281 million, resulting in a positive cash flow from investment activities.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | Millions of Ch$ | | |
| Net cash used in financing activities | (330,199) | (265,156) | (240,687) |

In 2015, 2014 and 2013, the net cash used in financing activities can be explained by the Bank's annual dividend payment each year.

Deposits and Other Borrowings

The following table sets forth our average balance of liabilities for the years ended December 31, 2015, 2014 and, 2013, in each case together with the related average nominal interest rates paid thereon.

| | 2015 | | | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | % of Total Average Liabilities | Average Nominal Rate | Average Balance | % of Total Average Liabilities | Average Nominal Rate | Average Balance | % of Total Average Liabilities | Average Nominal Rate |
| | (millions of Ch$, except percentages) | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | | |
| Savings accounts | 114,330 | 0.3 % | 3.4 % | 108,185 | 0.3 % | 5.0 % | 103,760 | 0.4 % | 1.9 % |
| Time deposits | 12,685,504 | 36.7 % | 3.2 % | 11,952,994 | 36.5 % | 3.4 % | 9,949,401 | 36.8 % | 4.5 % |
| Central Bank borrowings | 4,891 | — | 1.0 % | 6,906 | — | 0.2 % | 221 | — | 6.3 % |
| Repurchase agreements | 228,050 | 0.7 % | 3.1 % | 413,263 | 1.3 % | 2.0 % | 266,883 | 1.0 % | 5.6 % |
| Mortgage finance bonds | 63,061 | 0.2 % | 10.2 % | 81,805 | 0.2 % | 11.9 % | 102,778 | 0.4 % | 8.0 % |
| Other interest bearing liabilities | 7,500,408 | 21.7 % | 5.5 % | 6,865,084 | 21.0 % | 6.9 % | 6,850,953 | 25.3 % | 4.7 % |
| Subtotal interest-bearing | 20,596,244 | 59.6 % | 4.0 % | 19,428,237 | 59.4 % | 4.6 % | 17,273,996 | 63.9 % | 4.6 % |

liabilities

| | | | | | | |
|---|---|---|---|---|---|---|
| Non-interest bearing liabilities | | | | | | |
| Non-interest bearing deposits | 5,719,889 | 16.6 % | 5,386,272 | 16.5 % | 4,620,849 | 17.1 % |
| Derivatives | 2,958,942 | 8.6 % | 2,719,386 | 8.3 % | 1,467,723 | 5.4 % |
| Other non-interest bearing liabilities | 2,454,037 | 7.1 % | 2,501,651 | 7.6 % | 1,325,975 | 4.9 % |
| Shareholders' equity | 2,816,116 | 8.2 % | 2,689,037 | 8.2 % | 2,349,448 | 8.7 % |
| Subtotal non-interest bearing liabilities | 13,948,984 | 40.4 % | 13,296,346 | 40.6 % | 9,763,995 | 36.1 % |
| Total liabilities | 34,545,228 | 100.0 % | 32,724,583 | 100.0 % | 27,037,991 | 100.0 % |

Our most important source of funding is our deposits. Average time deposits plus non-interest bearing demand deposits represented 53.3% of our average total liabilities and shareholders' equity in 2015. Our current funding strategy is to continue to utilize all sources of funding in accordance with their costs, their availability and our general asset and liability management strategy. Special emphasis is being placed on lengthening the maturities of funding with institutional clients, diversifying our bond holder base and broadening our core deposit funding. We believe that broadening our deposit base by increasing the number of account holders has created a more stable funding source.

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Composition of Deposits

The following table sets forth the composition of our deposits and similar commitments at December 31, 2015, 2014, 2013, 2012 and 2011.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | (in millions of Ch$) | | | | |
| Demand deposits and other demand obligations | | | | | |
| Current accounts | 5,875,992 | 5,131,130 | 4,403,526 | 4,006,143 | 3,543,776 |
| Other deposits and demand accounts | 577,077 | 554,785 | 569,395 | 455,315 | 350,519 |
| Other demand obligations | 903,052 | 794,582 | 647,842 | 508,561 | 519,520 |
| Subtotals | 7,356,121 | 6,480,497 | 5,620,763 | 4,970,019 | 4,413,815 |
| Time deposits and other time deposits | | | | | |
| Time deposits | 12,065,697 | 10,303,167 | 9,567,855 | 9,008,902 | 8,816,766 |
| Time saving accounts | 113,562 | 107,599 | 104,143 | 101,702 | 102,831 |
| Other time deposits | 3,508 | 3,174 | 3,274 | 1,609 | 1,517 |
| Subtotals | 12,182,767 | 10,413,940 | 9,675,272 | 9,112,213 | 8,921,114 |
| Total deposits and other commitments | 19,538,888 | 16,894,437 | 15,296,035 | 14,082,232 | 13,334,929 |

Maturity of Interest Bearing Deposits

The following table sets forth information regarding the currency and maturity of our interest bearing deposits as of December 31, 2015, expressed in percentages of our total deposits in each currency category. UF-denominated deposits are similar to peso-denominated deposits in all respects, except that the principal is readjusted periodically based on variations in the Chilean consumer price index.

| | Ch$ | UF | Foreign Currencies | Total |
|---|---|---|---|---|
| Demand deposits | 0.02 % | 0.11 % | 0.01 % | 0.03 % |
| Savings accounts | 0.02 % | 10.06 % | 0.00 % | 0.93 % |
| Time deposits: | | | | |
| Maturing within 3 months | 71.92 % | 53.81 % | 90.54 % | 72.79 % |
| Maturing after 3 but within 6 months | 19.44 % | 14.66 % | 8.74 % | 17.55 % |
| Maturing after 6 but within 12 months | 6.73 % | 10.36 % | 0.48 % | 6.21 % |
| Maturing after 12 months | 1.87 % | 11.01 % | 0.23 % | 2.48 % |
| Total time deposits | 99.96 % | 89.83 % | 99.99 % | 99.04 % |
| Total deposits | 100.00 % | 100.00 % | 100.00 % | 100.00 % |

The following table sets forth information regarding the maturity of our outstanding time deposits in excess of U.S.$100,000 as of December 31, 2015.

| | Ch$ | UF | Foreign Currencies | Total |
|---|---|---|---|---|
| | (in millions of Ch$) | | | |
| Time deposits: | | | | |
| Maturing within 3 months | 6,766,025 | 599,965 | 1,502,453 | 8,868,443 |
| Maturing after 3 but within 6 months | 1,829,340 | 163,428 | 144,978 | 2,137,746 |
| Maturing after 6 but within 12 months | 633,632 | 115,466 | 8,026 | 757,124 |
| Maturing after 12 months | 175,889 | 122,731 | 3,764 | 302,384 |
| Total time deposits | 9,404,887 | 1,001,590 | 1,659,221 | 12,065,697 |

Short-term Borrowings

The principal categories of our short-term borrowings are repurchase agreements and interbank borrowings. The table below presents the amounts outstanding at each year-end indicated and the weighted-average nominal interest rate for each such year by type of short-term borrowing.

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| | Balance | Weighted-Average Nominal Interest Rate | Balance | Weighted-Average Nominal Interest Rate | Balance | Weighted-Average Nominal Interest Rate |
| | (in millions of Ch$, except percentages) | | | | | |
| Obligations arising from repurchase agreements | 143,689 | 0.3 % | 392,126 | 0.2 % | 208,972 | 0.3 % |
| Obligations with the Central Bank | 4 | 0.5 % | 94 | 0.5 % | 220 | 0.5 % |
| Loans from domestic financial institutions | - | - | 66,006 | 0.2 % | 500 | 0.1 % |
| Foreign obligations | 868,593 | 0.4 % | 717,416 | 0.2 % | 1,529,511 | 0.3 % |
| Total short-term borrowings | 1,012,286 | 0.7 % | 1,175,642 | 0.2 % | 1,739,203 | 0.3 % |

The following table shows the average balance and the average nominal rate for each short-term borrowing category for the years indicated.

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| | Average Balance | Average Nominal Interest Rate | Average Balance | Average Nominal Interest Rate | Average Balance | Average Nominal Interest Rate |
| | (in millions of Ch$, except percentages) | | | | | |
| Obligations arising from repurchase agreements | 228,050 | 3.1 % | 413,263 | 2.0 % | 266,883 | 5.6 % |
| Obligations with the Central Bank | 4,891 | 1.0 % | 6,906 | 0.2 % | 221 | 6.3 % |
| Loans from domestic financial institutions | 88,296 | 0.6 % | 100,513 | 4.9 % | 33,834 | 4.6 % |
| Foreign obligations | 1,038,686 | 0.8 % | 1,508,559 | 1.3 % | 1,543,337 | 1.0 % |
| Total short-term borrowings | 1,359,923 | 1.1 % | 2,029,241 | 1.6 % | 1,844,275 | 1.8 % |

The following table presents the maximum month-end balances of our principal sources of short-term borrowings during the years indicated.

| | Maximum 2015 Month-End Balance | Maximum 2014 Month-End Balance | Maximum 2013 Month-End Balance |
|---|---|---|---|
| | (in millions of Ch$) | | |
| Obligations arising from repurchase agreements | 388,735 | 392,126 | 471,486 |
| Obligations with the Central Bank | 85 | 205 | 370 |
| Loans from domestic financial institutions | 205,069 | 206,530 | 251,600 |
| Foreign obligations | 1,387,403 | 1,809,514 | 1,802,127 |
| Total short-term borrowings | 1,981,292 | 2,408,375 | 2,525,583 |

Total Borrowings

| | As of December 31, 2015 | | |
|---|---|---|---|
| | Long-term | Short-term | Total |
| | (in millions of Ch$) | | |
| Central Bank credit lines for renegotiations of loans (a) | — | 4 | 4 |
| Obligations under repurchase agreements | — | 143,689 | 143,689 |
| Mortgage finance bonds (b) | 57,314 | 5,544 | 62,858 |
| Senior bonds (c) | 4,245,624 | 796,012 | 5,041,636 |
| Mortgage bonds(d) | 103,519 | 4,063 | 107,582 |
| Subordinated bonds(e) | 738,436 | 6,583 | 745,019 |
| Borrowings from domestic financial institutions | — | — | — |
| Foreign borrowings(f) | 438,977 | 868,593 | 1,307,570 |
| Other obligations(g) | 84,355 | 136,172 | 220,527 |
| **Total borrowings** | **5,668,225** | **1,960,660** | **7,628,885** |

| | As of December 31, 2014 | | |
|---|---|---|---|
| | Long-term | Short-term | Total |
| | (in millions of Ch$) | | |
| Central Bank credit lines for renegotiations of loans (a) | — | 94 | 94 |
| Obligations under repurchase agreements | — | 392,126 | 392,126 |
| Mortgage finance bonds (b) | 74,948 | 6,561 | 81,509 |
| Senior bonds (c) | 3,701,885 | 1,166,602 | 4,868,487 |
| Mortgage bonds(d) | 105,422 | 3,778 | 109,200 |
| Subordinated bonds(e) | 715,465 | 10,451 | 725,916 |
| Borrowings from domestic financial institutions | — | 66,006 | 66,006 |
| Foreign borrowings(f) | 448,085 | 717,416 | 1,165,501 |
| Other obligations(g) | 84,576 | 120,549 | 205,125 |
| Total borrowings | 5,130,381 | 2,483,583 | 7,613,964 |

| | As of December 31, 2013 | | |
|---|---|---|---|
| | Long-term | Short-term | Total |
| | (in millions of Ch$) | | |
| Central Bank credit lines for renegotiations of loans (a) | — | 220 | 220 |
| Obligations under repurchase agreements | — | 208,972 | 208,972 |
| Mortgage finance bonds (b) | 95,174 | 6,493 | 101,667 |
| Senior bonds (c) | 2,586,989 | 1,603,929 | 4,190,918 |
| Mortgage bonds(d) | 70,339 | — | 70,339 |
| Subordinated bonds(e) | 697,268 | 138,466 | 835,734 |
| Borrowings from domestic financial institutions | — | 500 | 500 |
| Foreign borrowings(f) | 152,146 | 1,529,511 | 1,681,657 |
| Other obligations(g) | 88,083 | 101,698 | 189,781 |
| Total borrowings | 3,689,999 | 3,589,789 | 7,279,788 |

(a) Credit lines for renegotiations of loans

Central Bank borrowings include credit lines for the renegotiations of loans and other Central Bank borrowings. The maturities of the outstanding amounts due are as follows:

| As of December 31, 2015 | As of December 31, 2014 |
|---|---|

| | (in millions of Ch$) | |
|---|---|---|
| Due within 1 year | 4 | 94 |
| Total | 4 | 94 |

(b) Mortgage finance bonds

These bonds are used to finance mortgage loans. Their principal amounts are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. Loans are indexed to UF and pay a yearly interest rate.

| | As of December 31, 2015 (in millions of Ch$) |
|---|---|
| Due within 1 year | 5,544 |
| Due after 1 year but within 2 years | 6,237 |
| Due after 2 years but within 3 years | 8,000 |
| Due after 3 years but within 4 years | 5,211 |
| Due after 4 years but within 5 years | 5,005 |
| Due after 5 years | 32,861 |
| **Total mortgage finance bonds** | **62,858** |

(c) Senior bonds

The following table sets forth, at the dates indicated, our issued senior bonds. The bonds are denominated principally in UFs or U.S. dollars, and are principally used to fund assets with similar durations.

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (in millions of Ch$) | | |
| Senior Bonds in UF | 2,179,643 | 1,797,438 | 1,964,905 |
| Senior Bonds in U.S.$ | 1,625,150 | 2,191,347 | 1,658,789 |
| Senior Bonds in CHF | 535,448 | 443,186 | 246,284 |
| Senior Bonds in Ch$ | 475,075 | 236,025 | 277,530 |
| Senior Bonds in CNY | — | — | 43,410 |
| Current bonds in AUD | 62,066 | 62,472 | — |
| Santander bonds in JPY | 164,254 | 138,019 | — |
| Total senior bonds | 5,041,636 | 4,868,487 | 4,190,918 |

The maturities of these bonds are as follows:

| | As of December 31, 2015 (in millions of Ch$) |
|---|---|
| Due within 1 year | 796,012 |
| Due after 1 year but within 2 years | 1,147,138 |
| Due after 2 years but within 3 years | 415,914 |
| Due after 3 years but within 4 years | 682,494 |
| Due after 4 years but within 5 years | 466,700 |
| Due after 5 years | 1,533,378 |
| Total bonds | 5,041,636 |

In 2015, the Bank issued bonds for UF22,000,000; CLP 200,000,000,000; CHF 150,000,000; and JPY 1,200,000,000 detailed as follows:

| **Series** | **Currency** | **Amount** | **Term** | **Issuance rate** | **Series approval** | **Series maximum amount** | **Maturity date** |
|---|---|---|---|---|---|---|---|

| | | | | | **date** | | |
|---|---|---|---|---|---|---|---|
| SG Series | UF | 3,000,000 | 12 years | 3.30% per annum simple | 11-01-2014 | UF 3,000,000 | 11-01-2025 |
| SF Series | UF | 3,000,000 | 5 years | 3.00% per annum simple | 11-01-2014 | UF 3,000,000 | 04-01-2020 |
| SB Series | UF | 2,000,000 | 5 years | 2.65% per annum simple | 07-01-2014 | UF 2,000,000 | 07-01-2019 |
| BSTDP6 Series | UF | 3,000,000 | 5 years | 2.25% per annum simple | 03-01-2015 | UF 3,000,000 | 03-01-2020 |
| BSTDP7 Series | UF | 3,000,000 | 8 years | 2.40% per annum simple | 03-01-2015 | UF 3,000,000 | 09-01-2022 |
| BSTDP8 Series | UF | 3,000,000 | 6 years | 2.25% per annum simple | 03-01-2015 | UF 3,000,000 | 09-01-2021 |
| BSTDP9 Series | UF | 2,000,000 | 6 years | 2.60% per annum simple | 03-01-2015 | UF 5,000,000 | 09-01-2025 |
| BSTDSA0714 Series | UF | 3,000,000 | 10 years | 3.00% per annum simple | 07-01-2014 | UF 5,000,000 | 07-01-2024 |
| **UF Total** | **UF** | **22,000,000** | | | | | |
| BSTDP2 Series | CLP | 100,000,000,000 | 5 years | 5.20% per annum simple | 01-01-2015 | CLP 100,000,000,000 | 03-01-2020 |
| BSTDP4 Series | CLP | 100,000,000,000 | 5 years | 4.80% per annum simple | 03-01-2015 | CLP 150,000,000,000 | 03-01-2020 |
| **CLP Total** | **CLP** | **200,000,000,000** | | | | | |
| CHF fixed rate bond | CHF | 150,000,000 | 7 years | 0.38% quarterly | 05-19-2015 | CHF 150,000,000 | 05-19-2022 |
| **CHF Total** | **CHF** | **150,000,000** | | | | | |
| JPY Current Bond | JPY | 1,200,000,000 | 5 years | 0.42% biannually | 12-17-2015 | JPY 1,200,000,000 | 12-17-2020 |
| **JPY Total** | **JPY** | **1,200,000,000** | | | | | |

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(d) Mortgage bonds

These bonds are used to finance mortgage loans with certain characteristics such as loan-to-value ratios below 80% and a debt servicing ratio of the client lower than 20%. All outstanding mortgage bonds are UF denominated.

The maturities of our mortgage bonds are as follows:

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| | Ch$mn | Ch$mn |
| Due within 1 year | 4,063 | 3,778 |
| Due after 1 year but within 2 years | 6,522 | 6,065 |
| Due after 2 year but within 3 years | 6,733 | 6,261 |
| Due after 3 year but within 4 years | 6,951 | 6,463 |
| Due after 4 year but within 5 years | 7,175 | 6,671 |
| Due after 5 years | 76,138 | 79,962 |
| Total mortgage bonds | 107,582 | 109,200 |

During 2015, the Bank has not placed any mortgage bonds.

(e) Subordinated bonds

The following table sets forth, at the dates indicated, the balances of our subordinated bonds. The following table sets forth, at the dates indicated, our issued subordinated bonds. The bonds are denominated principally in UFs or U.S. dollars, and are principally used to fund the Bank's mortgage portfolio and are considered to be a part of our regulatory capital.

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (in millions of Ch$) | | |
| Subordinated bonds denominated in U.S.$ | - | 3 | 139,802 |
| Subordinated bonds linked to the Ch$ | 6 | - | - |
| Subordinated bonds linked to the UF | 745,013 | 725,913 | 695,932 |
| Total subordinated bonds | 745,019 | 725,916 | 835,734 |

The maturities of these bonds, which are considered long-term, are as follows.

| | As of December 31, 2015 (in millions of Ch$) |
|---|---|
| Due within 1 year | 6,583 |
| Due after 1 year but within 2 years | - |
| Due after 2 years but within 3 years | - |
| Due after 3 years but within 4 years | - |
| Due after 4 years but within 5 years | - |
| Due after 5 years | 738,436 |
| Total subordinated bonds | 745,019 |

During 2015, the Bank did not issue subordinated bonds.

(f) Foreign borrowings

These are short-term and long-term borrowings from foreign banks used to fund our foreign trade business. The maturities of these borrowings are as follows.

| | As of December 31, 2015 (in millions of Ch$) |
|---|---|
| Due within 1 year | 868,593 |
| Due after 1 year but within 2 years | 352,345 |
| Due after 2 years but within 3 years | 35,390 |
| Due after 3 years but within 4 years | 35,133 |
| Due after 5 years | 16,109 |
| Total loans from foreign financial institutions | 1,307,570 |

(g) Other obligations

Other obligations are summarized as follows:

| | As of December 31, 2015 MCh$ |
|---|---|
| Long term obligations | |
| Due after 1 years but within 2 years | 3,497 |
| Due after 2 years but within 3 years | 20,240 |
| Due after 3 years but within 4 years | 16,063 |
| Due after 4 years but within 5 years | 28,227 |
| Due after 5 years | 16,328 |
| Long-term financial obligations subtotals | 84,355 |
| Short term obligations: | |
| Amounts due to credit card operators | 129,358 |
| Acceptance of letters of credit | 3,176 |
| Other long-term financial obligations, short-term portion | 3,638 |
| Short-term financial obligations subtotals | 136,172 |
| Other financial obligations totals | 220,527 |

Other Off-Balance Sheet Arrangements and Commitments

In the normal course of our business, we are party to transactions with off-balance sheet risk. These transactions expose us to credit risk in addition to amounts recognized in the consolidated financial statements. The most important off-balance sheet item is contingent loans. Contingent loans consist of guarantees granted by us in Ch$, UF and foreign currencies (principally U.S.$), unused letters of credit and commitments to extend credit such as overdraft protection and credit card lines of credit. Such commitments are agreements to lend to a customer at a future date, subject to the customer compliance with the contractual terms. Since a substantial portion of these commitments is

expected to expire without being drawn upon, the total amount of commitments does not necessarily represent our actual future cash requirements. We use the same credit policies in making commitments to extend credit as we do for granting loans, therefore, in the opinion of our management, our outstanding commitments represent normal credit risk.

The following table presents the Bank's outstanding contingent loans as of December 31, 2015, 2014 and 2013:

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (in millions of Ch$) | | |
| Issued and documented letters of credit | 179,042 | 205,920 | 218,032 |
| Confirmed foreign letters of credit | 70,434 | 75,813 | 127,600 |
| Documented guarantees | 1,684,847 | 1,481,154 | 1,212,799 |
| Other guarantees | 163,955 | 262,169 | 181,416 |
| Subtotals | 2,098,278 | 2,025,056 | 1,739,847 |
| Lines of credit with immediate availability | 6,806,745 | 5,699,573 | 5,141,831 |
| Other irrevocable obligation | 82,328 | 109,520 | 47,376 |
| Totals | 8,987,351 | 7,834,149 | 6,929,054 |

Asset and Liability Management

Please refer to “Item 11. Quantitative and Qualitative Disclosures about Market Risk” for information regarding our policies with respect to asset and liability management.

Capital Expenditures

The following table reflects capital expenditures in each of the three years ended December 31, 2015, 2014 and 2013:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (in millions of Ch$) | | |
| Land and Buildings | 27,781 | 24,957 | 17,470 |
| Machinery, Systems and Equipment | 29,282 | 22,785 | 20,171 |
| Furniture, Vehicles, Other(1) | 8,048 | 11,346 | 3,148 |
| Total | 65,111 | 59,088 | 40,789 |

(1) Includes assets ceded under operating leases.

The increase in capital expenditures in 2015 was mainly due to higher investments in IT hardware and software, and to refurbish branches.

C. Selected Statistical Information

The following information is included for analytical purposes and should be read in conjunction with our Audited Consolidated Financial Statements, as well as the discussion in this “Item 5. Item 5. Operating and Financial Review and Prospects.” The UF is linked to, and is adjusted daily to reflect changes in, the previous month’s Chilean consumer price index. See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Impact of Inflation.”

Average Balances, Income Earned from Interest-Earning Assets and Interest Paid on Interest-Bearing Liabilities

The average balances for interest-earning assets and interest-bearing liabilities, including interest and readjustments received and paid, have been calculated on the basis of daily balances for us on an unconsolidated basis. Such average

balances are presented in Chilean pesos, UFs and in foreign currencies (principally U.S. dollars). Figures from our subsidiaries have been calculated on the basis of monthly balances. The average balances of our subsidiaries, except Santander S.A. Agente de Valores, have not been categorized by currency. As such it is not possible to calculate average balances by currency for such subsidiaries on the basis of daily, weekly or monthly balances.

The nominal interest rate has been calculated by dividing the amount of interest and principal changes in the UF index (gain or loss) during the period by the related average balance, both amounts expressed in constant pesos.

Foreign exchange gains or losses on foreign currency-denominated assets and liabilities are not included in interest income or expense. Similarly, interest on the available for sale investment portfolio does not include trading or mark-to-market gains or losses on these investments. Interest is not recognized on non-performing loans. Non-performing loans that are past-due for 90 days or less have been included in each of the various categories of loans, and therefore affect the various averages. Non-performing loans consist of loans as to which either principal or interest is past-due (*i.e.*, non-accrual loans) and restructured loans earning no interest.

Included in interbank deposits are checking accounts maintained in the Central Bank and foreign banks. Such assets have a distorting effect on the average interest rate earned on total interest-earning assets because currently balances maintained in Chilean peso amounts do not earn interest, and the only balances held in a foreign currency that earn interest are those maintained in U.S. dollars, but those only earn interest on the amounts that are legally required to be held for liquidity purposes. Additionally, this account includes interest earned by overnight investments. Consequently, the average interest earned on such assets is comparatively low. We maintain these deposits in these accounts to comply with statutory requirements and to facilitate international business, rather than to earn income.

The following tables show, by currency of denomination, average balances and, where applicable, interest amounts and real rates for our assets and liabilities for the years ended December 31, 2015, 2014 and 2013.

| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | | 2013 | | |
| | Average Balance | Interest Earned | Average Nominal Rate | Average Balance | Interest Earned | Average Nominal Rate | Average Balance | Interest Earned | Average Nominal Rate |
| Assets | | | | | | | | | |
| Interest earning assets | | | | | | | | | |
| Deposits in Central Bank | | | | | | | | | |
| Ch$ | 283,376 | 7,246 | 2.6 % | 477,977 | 8,728 | 1.8 % | 246,757 | 4,092 | 1.7 % |
| UF | — | — | — % | — | — | — % | — | — | — % |
| Foreign currency | — | — | — % | — | — | — % | — | — | — % |
| Total | 283,376 | 7,246 | 2.6 % | 477,977 | 8,728 | 1.8 % | 246,757 | 4,092 | 1.7 % |
| Financial investments | | | | | | | | | |
| Ch$ | 1,323,540 | 29,488 | 2.2 % | 1,339,117 | 40,701 | 3.0 % | 1,067,737 | 68,060 | 6.4 % |
| UF | 139,394 | 9,583 | 6.9 % | 295,570 | 38,906 | 13.2% | 434,485 | 14,945 | 3.4 % |
| Foreign currency | 1,054,110 | 10,784 | 1.0 % | 1,368,089 | 6,047 | 0.4 % | 523,584 | 2,013 | 0.4 % |
| Total | 2,517,044 | 49,855 | 2.0 % | 3,002,776 | 85,654 | 2.8 % | 2,025,806 | 85,018 | 4.2 % |
| Commercial Loans | | | | | | | | | |
| Ch$ | 5,679,661 | 502,137 | 8.8 % | 5,658,176 | 474,537 | 8.4 % | 5,474,890 | 496,055 | 9.1 % |
| UF | 4,466,365 | 352,466 | 7.9 % | 4,077,560 | 381,244 | 9.3 % | 3,689,570 | 250,748 | 6.8 % |
| Foreign currency | 3,388,381 | 78,552 | 2.3 % | 2,874,210 | 67,140 | 2.3 % | 2,645,594 | 57,157 | 2.2 % |
| Total | 13,534,407 | 933,155 | 6.9 % | 12,609,946 | 922,921 | 7.3 % | 11,810,054 | 803,960 | 6.8 % |
| Consumer loans | | | | | | | | | |
| Ch$ | 3,711,552 | 520,553 | 14.0% | 3,502,026 | 600,869 | 17.2% | 3,196,286 | 607,136 | 19.0% |
| UF | 80,848 | 8,229 | 10.2% | 91,668 | 11,191 | 12.2% | 100,042 | 9,951 | 9.9 % |
| Foreign currency | 34,370 | — | — % | 27,606 | — | — % | 22,187 | 1 | — % |
| Total | 3,826,770 | 528,782 | 13.8% | 3,621,300 | 612,060 | 16.9% | 3,318,515 | 617,088 | 18.6% |
| Mortgage loans | | | | | | | | | |
| Ch$ | 17,291 | 1,312 | 7.6 % | 23,758 | 4,918 | 20.7% | 31,403 | 2,267 | 7.2 % |
| UF | 7,695,618 | 564,579 | 7.3 % | 6,535,989 | 591,446 | 9.0 % | 5,554,152 | 356,304 | 6.4 % |
| Foreign currency | — | — | — % | — | — | — % | — | — | — % |
| Total | 7,712,909 | 565,891 | 7.3 % | 6,559,747 | 596,364 | 9.0 % | 5,585,555 | 358,571 | 6.4 % |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Interbank loans | | | | | | | | | |
| Ch$ | 2,271 | 364 | 16.0% | 4,356 | 139 | 3.2% | 5,102 | 195 | 3.8% |
| UF | — | — | —% | — | — | —% | — | — | —% |
| Foreign currency | 3,327 | 11 | 0.3% | 1 | — | —% | 3 | — | —% |
| Total | 5,598 | 375 | 6.7% | 4,357 | 139 | 3.2% | 5,105 | 195 | 3.8% |
| Investment Agreements to resell | | | | | | | | | |
| Ch$ | 204 | 105 | 51.5% | 4,074 | 793 | 19.5% | 31,446 | 2,050 | 6.5% |
| UF | — | 23 | —% | — | 95 | —% | 90 | 5 | 5.6% |
| Foreign currency | — | — | —% | — | — | —% | — | — | —% |
| Total | 204 | 128 | 51.5% | 4,074 | 888 | 19.5% | 31,536 | 2,055 | 6.5% |
| Threshold(1) | | | | | | | | | |
| Ch$ | 29,895 | 62 | 0.2% | 31 | — | —% | — | — | —% |
| UF | — | — | —% | — | — | —% | — | — | —% |
| Foreign currency | 612,802 | 494 | 0.1% | 479,488 | 264 | 0.1% | 244,407 | 225 | 0.1% |
| Total | 642,697 | 556 | 0.1% | 479,519 | 264 | 0.1% | 244,407 | 225 | 0.1% |
| Total interest earning assets | | | | | | | | | |
| Ch$ | 11,047,790 | 1,061,267 | 9.6% | 11,009,515 | 1,130,685 | 10.3% | 10,053,621 | 1,179,855 | 11.7% |
| UF | 12,382,225 | 934,880 | 7.6% | 11,000,787 | 1,022,882 | 9.3% | 9,778,339 | 631,953 | 6.5% |
| Foreign currency | 5,092,990 | 89,841 | 1.8% | 4,749,394 | 73,451 | 1.5% | 3,435,775 | 59,396 | 1.7% |
| Total | 28,523,005 | 2,085,988 | 7.3% | 26,759,696 | 2,227,018 | 8.3% | 23,267,735 | 1,871,204 | 8.0% |
| | | | | | | | | | |
| Non-interest earning assets | | | | | | | | | |
| Cash | | | | | | | | | |
| Ch$ | 715,484 | | | 677,003 | | | 678,021 | | |
| UF | — | | | — | | | — | | |
| Foreign currency | 98,936 | | | 78,195 | | | 74,779 | | |
| Total | 814,420 | | | 755,198 | | | 752,800 | | |
| Allowance for loan losses | | | | | | | | | |
| Ch$ | (805,244) | | | (722,660) | | | (625,960) | | |
| UF | — | | | — | | | — | | |
| Foreign currency | (15) | | | — | | | — | | |
| Total | (805,259) | | | (722,660) | | | (625,960) | | |
| Fixed assets | | | | | | | | | |
| Ch$ | 222,083 | | | 202,902 | | | 131,372 | | |
| UF | — | | | — | | | — | | |
| Foreign currency | — | | | — | | | — | | |
| Total | 222,083 | | | 202,902 | | | 131,372 | | |

| Derivatives | | | |
|---|---|---|---|
| Ch$ | 3,300,507 | 2,910,369 | 1,686,654 |
| UF | — | — | — |
| Foreign currency | — | — | 2,459 |
| Total | 3,300,507 | 2,910,369 | 1,689,113 |

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| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | | 2013 | | |
| | Average Balance | Interest Earned | Average Nominal Rate | Average Balance | Interest Earned | Average Nominal Rate | Average Balance | Interest Earned | Average Nominal Rate |
| Financial Investment (Trading) | | | | | | | | | |
| Ch$ | 141,784 | | | 114,875 | | | 215,003 | | |
| UF | 195,203 | | | 600,005 | | | 166,124 | | |
| Foreign currency | 21,828 | | | 7 | | | 86 | | |
| Total | 358,815 | | | 714,887 | | | 381,213 | | |
| Other assets | | | | | | | | | |
| Ch$ | 1,215,289 | | | 1,065,307 | | | 952,902 | | |
| UF | 69,534 | | | 71,241 | | | 64,511 | | |
| Foreign currency | 846,834 | | | 967,643 | | | 424,305 | | |
| Total | 2,131,657 | | | 2,104,191 | | | 1,441,718 | | |
| Total non-interest earning assets | | | | | | | | | |
| Ch$ | 4,789,903 | | | 4,247,703 | | | 3,037,992 | | |
| UF | 264,737 | | | 671,363 | | | 230,635 | | |
| Foreign currency | 967,583 | | | 1,045,821 | | | 501,629 | | |
| Total | 6,022,223 | | | 5,964,887 | | | 3,770,256 | | |
| Total assets | | | | | | | | | |
| Ch$ | 15,837,693 | 1,061,266 | | 15,257,218 | 1,130,685 | | 13,091,613 | 1,179,855 | |
| UF | 12,646,962 | 934,881 | | 11,672,150 | 1,022,882 | | 10,008,974 | 631,953 | |
| Foreign currency | 6,060,573 | 89,841 | | 5,795,215 | 73,451 | | 3,937,404 | 59,396 | |
| Total | 34,545,228 | 2,085,988 | | 32,724,583 | 2,227,018 | | 27,037,991 | 1,871,204 | |
| Liabilities And Share-Holders' Equity | | | | | | | | | |
| Interest bearing liabilities | | | | | | | | | |
| Savings accounts | | | | | | | | | |
| Ch$ | 1,413 | 5 | 0.4 % | 1,213 | 3 | 0.2 % | 1,105 | 3 | 0.3 % |
| UF | 112,917 | 3,937 | 3.5 % | 106,972 | 5,461 | 5.1 % | 102,655 | 1,906 | 1.9 % |
| Foreign currency | — | — | — % | — | — | — % | — | — | — % |
| Total | 114,330 | 3,942 | 3.4 % | 108,185 | 5,464 | 5.0 % | 103,760 | 1,909 | 1.9 % |
| Time deposits | | | | | | | | | |
| Ch$ | 9,260,339 | 334,259 | 3.6 % | 7,891,805 | 307,868 | 3.9 % | 7,148,978 | 386,545 | 5.4 % |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| UF | 965,138 | 63,857 | 6.6% | 1,345,965 | 93,624 | 7.0% | 819,695 | 57,379 | 7.0% |
| Foreign currency | 2,460,027 | 5,303 | 0.2% | 2,715,224 | 8,443 | 0.3% | 1,980,728 | 6,061 | 0.3% |
| Total | 12,685,504 | 403,419 | 3.2% | 11,952,994 | 409,935 | 3.4% | 9,949,401 | 449,985 | 4.5% |
| Central bank borrowings | | | | | | | | | |
| Ch$ | 4,869 | 46 | 1.0% | 6,815 | 5 | 0.1% | — | — | —% |
| UF | 22 | 2 | 9.1% | 91 | 9 | 9.9% | 221 | 14 | 6.3% |
| Foreign currency | — | — | 0.0% | — | — | —% | — | — | —% |
| Total | 4,891 | 48 | 1.0% | 6,906 | 14 | 0.2% | 221 | 14 | 6.3% |
| Repurchase Agreements | | | | | | | | | |
| Ch$ | 220,849 | 6,954 | 3.1% | 400,673 | 8,267 | 2.1% | 258,971 | 15,089 | 5.8% |
| UF | — | 1 | —% | — | — | —% | — | 0 | —% |
| Foreign currency | 7,201 | 22 | 0.3% | 12,590 | 27 | 0.2% | 7,912 | 9 | 0.1% |
| Total | 228,050 | 6,977 | 3.1% | 413,263 | 8,294 | 2.0% | 266,883 | 15,098 | 5.6% |
| Mortgage finance bonds | | | | | | | | | |
| Ch$ | — | — | —% | — | — | —% | — | 0 | —% |
| UF | 63,061 | 6,420 | 10.2% | 81,805 | 9,698 | 11.9% | 102,778 | 8,235 | 8.0% |
| Foreign currency | — | — | —% | — | — | —% | — | 0 | —% |
| Total | 63,061 | 6,420 | 10.2% | 81,805 | 9,698 | 11.9% | 102,778 | 8,235 | 8.0% |
| Other interest bearing liabilities | | | | | | | | | |
| Ch$ | 677,014 | 109,455 | 16.2% | 409,021 | 203,374 | 49.7% | 393,354 | 62,642 | 15.9% |
| UF | 3,020,987 | 227,384 | 7.5% | 2,538,094 | 234,284 | 9.2% | 2,654,931 | 150,770 | 5.7% |
| Foreign currency | 3,802,407 | 73,137 | 1.9% | 3,917,969 | 38,851 | 1.0% | 3,802,668 | 105,789 | 2.8% |
| Total | 7,500,408 | 409,976 | 5.5% | 6,865,084 | 476,509 | 6.9% | 6,850,953 | 319,201 | 4.7% |
| Total interest bearing liabilities | | | | | | | | | |
| Ch$ | 10,164,484 | 450,719 | 4.4% | 8,709,527 | 519,517 | 6.0% | 7,802,408 | 464,279 | 6.0% |
| UF | 4,162,125 | 301,601 | 7.2% | 4,072,927 | 343,076 | 8.4% | 3,680,280 | 218,304 | 5.9% |
| Foreign currency | 6,269,635 | 78,462 | 1.3% | 6,645,783 | 47,321 | 0.7% | 5,791,308 | 111,859 | 1.9% |
| Total | 20,596,244 | 830,782 | 4.0% | 19,428,237 | 909,914 | 4.7% | 17,273,996 | 794,442 | 4.6% |
| | | | | | | | | | |
| Non interest bearing liabilities | | | | | | | | | |
| Non interest bearing demand deposits | | | | | | | | | |
| Ch$ | 5,617,012 | | | 5,282,135 | | | 4,520,789 | | |
| UF | 35,163 | | | 35,333 | | | 32,787 | | |

| | | | |
|---|---|---|---|
| Foreign currency | 67,714 | 68,804 | 67,273 |
| Total | 5,719,889 | 5,386,272 | 4,620,849 |

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| | For the year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | | 2013 | | |
| | Average Balance | Interest Earned | Average Nominal Rate | Average Balance | Interest Earned | Average Nominal Rate | Average Balance | Interest Earned | Average Nominal Rate |
| Derivatives | | | | | | | | | |
| Ch$ | 2,958,942 | | | 2,719,386 | | | 1,466,096 | | |
| UF | — | | | — | | | — | | |
| Foreign currency | — | | | — | | | 1,627 | | |
| Total | 2,958,942 | | | 2,719,386 | | | 1,467,723 | | |
| Other non-interest bearing liabilities | | | | | | | | | |
| Ch$ | 896,466 | | | 762,367 | | | 615,977 | | |
| UF | 410,866 | | | 398,108 | | | 247,400 | | |
| Foreign currency | 1,146,705 | | | 1,341,176 | | | 462,598 | | |
| Total | 2,454,037 | | | 2,501,651 | | | 1,325,975 | | |
| Shareholders' equity | | | | | | | | | |
| Ch$ | 2,816,116 | | | 2,689,037 | | | 2,349,448 | | |
| UF | — | | | — | | | — | | |
| Foreign currency | — | | | — | | | — | | |
| Total | 2,816,116 | | | 2,689,037 | | | 2,349,448 | | |
| Total non-interest bearing liabilities and shareholders' equity | | | | | | | | | |
| Ch$ | 12,288,536 | | | 11,452,925 | | | 8,952,310 | | |
| UF | 446,029 | | | 433,441 | | | 280,187 | | |
| Foreign currency | 1,214,419 | | | 1,409,980 | | | 531,498 | | |
| Total | 13,948,984 | | | 13,296,346 | | | 9,763,995 | | |
| Total Liabilities and Share-Holders' Equity | | | | | | | | | |
| Ch$ | 22,453,020 | 450,719 | | 20,162,452 | 519,517 | | 16,754,718 | 464,279 | |
| UF | 4,608,154 | 301,601 | | 4,506,368 | 343,076 | | 3,960,467 | 218,304 | |
| Foreign currency | 7,484,054 | 78,462 | | 8,055,763 | 47,321 | | 6,322,806 | 111,859 | |
| Total | 34,545,228 | 830,782 | | 32,724,583 | 909,914 | | 27,037,991 | 794,442 | |

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(1) Threshold is the asset generated when we post collateral for a derivative with a counterparty that has negative mark-to-market for us. Some CSD agreements permit this collateral to generate interest at the overnight rate and this is the source of interest income associated with this asset.

Changes in Net Interest Revenue and Interest Expense: Volume and Rate Analysis

The following table allocates, by currency of denomination, changes in our net interest revenue and interest expense between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective nominal interest rates for 2015 compared to 2014 and 2014 compared to 2013. Volume and rate variances

have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities.

| | Increase (Decrease) from 2014 to 2015 Due to Changes in | | | | Increase (Decrease) from 2013 to 2014 Due to Changes in | | | |
|---|---|---|---|---|---|---|---|---|
| | Volume | Rate | Rate and Volume | Net Change from 2014 to 2015 | Volume | Rate | Rate and Volume | Net Change from 2013 to 2014 |
| Assets | | | | | | | | |
| Interest earning assets | | | | | | | | |
| Deposits in Central Bank | | | | | | | | |
| Ch$ | (3,503 ) | 3,824 | (1,803 ) | (1,482 ) | 3,931 | 247 | 458 | 4,636 |
| UF | — | — | — | — | — | — | — | — |
| Foreign currency | — | — | — | — | — | — | — | — |
| Subtotal | (3,503 ) | 3,824 | (1,803 ) | (1,482 ) | 3,931 | 247 | 458 | 4,636 |
| Financial investments | | | | | | | | |
| Ch$ | (467 ) | (10,713 ) | (33 ) | (11,213 ) | 17,368 | (36,303 ) | (8,424 ) | (27,359 ) |
| UF | (20,615 ) | (18,621 ) | 9,913 | (29,323 ) | (4,723 ) | 42,580 | (13,896 ) | 23,961 |
| Foreign currency | (1,256 ) | 8,209 | (2,216 ) | 4,737 | 3,378 | — | 656 | 4,034 |
| Subtotal | (22,338 ) | (21,125 ) | 7,664 | (35,799 ) | 16,023 | 6,277 | (21,664 ) | 636 |
| Commercial loans | | | | | | | | |
| Ch$ | 1,805 | 22,633 | 3,162 | 27,600 | 16,679 | (38,324 ) | 127 | (21,518 ) |
| UF | 36,159 | (57,086 ) | (7,851 ) | (28,778 ) | 26,383 | 92,239 | 11,874 | 130,496 |
| Foreign currency | 11,826 | — | (414 ) | 11,412 | 5,030 | 2,646 | 2,307 | 9,983 |
| Subtotal | 49,790 | (34,453 ) | (5,103 ) | 10,234 | 48,092 | 56,561 | 14,308 | 118,961 |

| | Increase (Decrease) from 2014 to 2015 Due to Changes in | | | | Increase (Decrease) from 2013 to 2014 Due to Changes in | | | |
|---|---|---|---|---|---|---|---|---|
| | Volume | Rate | Rate and Volume | Net Change from 2014 to 2015 | Volume | Rate | Rate and Volume | Net Change from 2013 to 2014 |
| Consumer loans | | | | | | | | |
| Ch$ | 36,038 | (112,065) | (4,289) | (80,316) | 58,091 | (57,533) | (6,825) | (6,267) |
| UF | (1,320) | (1,833) | 191 | (2,962) | (829) | 2,301 | (232) | 1,240 |
| Foreign currency | — | — | — | — | — | — | (1) | (1) |
| Subtotal | 34,718 | (113,898) | (4,098) | (83,278) | 57,262 | (55,232) | (7,058) | (5,028) |
| Mortgage loans | | | | | | | | |
| Ch$ | (1,339) | (3,112) | 845 | (3,606) | (550) | 4,239 | (1,038) | 2,651 |
| UF | 104,367 | (111,112) | (20,122) | (26,867) | 62,838 | 144,408 | 27,896 | 235,142 |
| Foreign currency | — | — | — | — | — | — | — | — |
| Subtotal | 103,028 | (114,224) | (19,277) | (30,473) | 62,288 | 148,647 | 26,858 | 237,793 |
| Interbank loans | | | | | | | | |
| Ch$ | (67) | 558 | (266) | 225 | (28) | (31) | 3 | (56) |
| UF | - | - | - | - | — | — | — | — |
| Foreign currency | — | — | 11 | 11 | — | — | — | — |
| Subtotal | (67) | 558 | (255) | 236 | (28) | (31) | 3 | (56) |
| Investment under agreement to resell | | | | | | | | |
| Ch$ | (755) | 1,304 | (1,237) | (688) | (1,779) | 4,088 | (3,566) | (1,257) |
| UF | — | — | (72) | (72) | (5) | (5) | 100 | 90 |
| Foreign currency | — | — | — | — | — | — | — | — |
| Subtotal | (755) | 1,304 | (1,309) | (760) | (1,784) | 4,083 | (3,466) | (1,167) |
| Threshold | | | | | | | | |
| Ch$ | — | — | 62 | 62 | — | — | — | — |
| UF | — | — | — | — | — | — | — | — |
| Foreign currency | 133 | — | 97 | 230 | 235 | — | (196) | 39 |
| Subtotal | 133 | — | 159 | 292 | 235 | — | (196) | 39 |
| Total interest earnings assets | | | | | | | | |
| Ch$ | 31,712 | (97,571) | (3,559) | (69,418) | 93,712 | (123,617) | (19,265) | (49,170) |
| UF | 118,591 | (188,652) | (17,941) | (88,002) | 83,664 | 281,523 | 25,742 | 390,929 |
| Foreign currency | 10,703 | 8,209 | (2,522) | 16,390 | 8,643 | 2,646 | 2,766 | 14,055 |
| Total | 161,006 | (278,014) | (24,022) | (141,030) | 186,019 | 160,552 | 9,243 | 355,814 |
| Liabilities and Shareholders' Equity | | | | | | | | |
| Interest bearing liabilities | | | | | | | | |
| Savings accounts | | | | | | | | |
| Ch$ | — | 2 | — | 2 | — | (1) | 1 | — |
| UF | 303 | (1,712) | (115) | (1,524) | 82 | 3,285 | 188 | 3,555 |
| Foreign currency | — | — | — | — | — | — | — | — |
| Subtotal | 303 | (1,710) | (115) | (1,522) | 82 | 3,284 | 189 | 3,555 |
| Time deposits | | | | | | | | |
| Ch$ | 53,373 | (23,675) | (3,307) | 26,391 | 40,113 | (107,235) | (11,555) | (78,677) |
| UF | (26,658) | (5,384) | 2,275 | (29,767) | 36,839 | — | (594) | 36,245 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Foreign currency | (766 ) | (2,715 ) | 341 | (3,140 ) | 2,203 | — | 179 | 2,382 |
| Subtotal | 25,949 | (31,774 ) | (691 ) | (6,516 ) | 79,155 | (107,235) | (11,970) | (40,050 ) |
| Central bank borrowings | | | | | | | | |
| Ch$ | (2 ) | 61 | (18 ) | 41 | — | — | 5 | 5 |
| UF | (7 ) | (1 ) | 1 | (7 ) | (8 ) | 8 | (5 ) | (5 ) |
| Foreign currency | — | — | — | — | — | — | — | — |
| Subtotal | (9 ) | 60 | (17 ) | 34 | (8 ) | 8 | — | — |
| Repurchase agreements | | | | | | | | |
| Ch$ | (3,776 ) | 4,007 | (1,544 ) | (1,313 ) | 8,219 | (9,582 ) | (5,459 ) | (6,822 ) |
| UF | - | - | 1 | 1 | — | — | — | — |
| Foreign currency | (11 ) | 13 | (7 ) | (5 ) | 5 | 8 | 5 | 18 |
| Subtotal | (3,787 ) | 4,020 | (1,550 ) | (1,317 ) | 8,224 | (9,574 ) | (5,454 ) | (6,804 ) |
| Mortgage finance bonds | | | | | | | | |
| Ch$ | — | — | — | — | — | — | — | — |
| UF | (2,231 ) | (1,391 ) | 344 | (3,278 ) | (1,678 ) | 4,008 | (867 ) | 1,463 |
| Foreign currency | — | — | — | — | — | — | — | — |
| Subtotal | (2,231 ) | (1,391 ) | 344 | (3,278 ) | (1,678 ) | 4,008 | (867 ) | 1,463 |

| | Increase (Decrease) from 2014 to 2015 Due to Changes in | | | | Increase (Decrease) from 2013 to 2014 Due to Changes in | | | |
|---|---|---|---|---|---|---|---|---|
| | Volume | Rate | Rate and Volume | Net Change from 2014 to 2015 | Volume | Rate | Rate and Volume | Net Change from 2013 to 2014 |
| Other interest bearing liabilities | | | | | | | | |
| Ch$ | 133,193 | (137,022) | (90,090) | (93,919) | 2,491 | 132,954 | 5,287 | 140,732 |
| UF | 44,426 | (43,148) | (8,178) | (6,900) | (6,660) | 92,923 | (2,749) | 83,514 |
| Foreign currency | (1,156) | 35,262 | 180 | 34,286 | 3,228 | (68,448) | (1,718) | (66,938) |
| Subtotal | 176,463 | (144,908) | (98,088) | (66,533) | (941) | 157,429 | 820 | 157,308 |
| Total interest bearing liabilities | | | | | | | | |
| Ch$ | 182,788 | (156,627) | (94,959) | (68,798) | 50,823 | 16,136 | (11,721) | 55,238 |
| UF | 15,833 | (51,636) | (5,672) | (41,475) | 28,575 | 100,224 | (4,027) | 124,772 |
| Foreign currency | (1,933) | 32,560 | 514 | 31,141 | 5,436 | (68,440) | (1,534) | (64,538) |
| Total | 196,688 | (175,703) | (100,117) | (79,132) | 84,834 | 47,920 | (17,282) | 115,472 |

Interest-Earning Assets: Net Interest Margin

The following table analyzes, by currency of denomination, the levels of average interest-earning assets and net interest earned by Santander-Chile, and illustrates the comparative net interest margins obtained, for each of the years indicated in the table.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (in millions of Ch$) | | |
| Total average interest-earning assets | | | |
| Ch$ | 11,047,790 | 11,009,515 | 10,053,621 |
| UF | 12,382,225 | 11,000,787 | 9,778,339 |
| Foreign currencies | 5,092,990 | 4,749,384 | 3,435,775 |
| Total | 28,523,005 | 26,759,696 | 23,267,735 |
| Net interest earned (1) | | | |
| Ch$ | 610,548 | 611,168 | 715,576 |
| UF | 633,279 | 679,806 | 413,649 |
| Foreign currencies | 11,379 | 26,130 | (52,463) |
| Total | 1,255,206 | 1,317,104 | 1,076,762 |
| Net interest margin (2) | | | |
| Ch$ | 5.53% | 5.55% | 7.12% |
| UF | 5.11% | 6.18% | 4.23% |
| Foreign currencies | 0.22% | 0.55% | (1.53)% |
| Total | 4.40% | 4.92% | 4.63% |

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(1) Net interest earned is defined as interest revenue earned less interest expense incurred.

(2) Net interest margin is defined as net interest earned divided by total average interest-earning assets.

Return on Equity and Assets; Dividend Payout

The following table presents certain information and selected financial ratios for Santander-Chile for the years indicated.

| Ch$ million | Year ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Net income | 451,729 | 575,910 | 444,429 |
| Net income attributable to shareholders | 448,466 | 569,910 | 442,294 |
| Average total assets | 34,545,228 | 32,724,583 | 27,037,991 |
| Average equity | 2,816,116 | 2,689,037 | 2,349,448 |
| Net income as a percentage of: | | | |
| Average total assets | 1.3% | 1.8% | 1.6% |
| Average equity | 16.0% | 21.4% | 18.9% |
| Average equity as a percentage of: | | | |
| Average total assets | 8.2% | 8.2% | 8.7% |
| Cash dividend (1) | 336,659 | 330,198 | 265,156 |
| Dividend payout ratio, based on net income attributable to shareholders (1) | 75.0% | 58.0% | 60.0% |

(1) Cash dividend for 2015 represents cash dividend approved by shareholders on April 26, 2016.

The following table presents dividends declared and paid by us in nominal terms in the past four years:

| Year | Dividend Ch$ mn (1) | Dividend US$ mn (2) | Per share Ch$/share (3) | Per ADS US$/ADS (4) | % over earnings (5) | % over earnings (6) |
|---|---|---|---|---|---|---|
| 2012 | 261,051 | 533.1 | 1.39 | 2.94 | 60 | 65 |
| 2013 | 232,780 | 493.1 | 1.24 | 1.05 | 60 | 65 |
| 2014 | 265,156 | 476.0 | 1.41 | 1.01 | 60 | 60 |
| 2015 | 330,198 | 540.4 | 1.75 | 1.15 | 60 | 58 |
| 2016 (6) | 336,659 | 503.7 | 1.79 | 1.07 | 75 | 75 |

(1) Millions of nominal pesos.

(2) Millions of US$ using the observed exchange rate of the day the dividend was approved in the annual shareholders meeting.

(3) Calculated on the basis of 188,446 million shares.

(4) Dividend in US$ million divided by the number of ADS, which was calculated on the basis of 1,039 shares per ADS for 2012. For 2013, 2014, 2015 and 2016, it is calculated on the basis of 400 shares per ADS.

(5) Calculated by dividing dividend paid in the year by net income attributable to the equity holders of the Bank for the previous year under Chilean GAAP.

(6) Calculated by dividing dividend paid in the year by net income attributable to the equity holders of the Bank for the previous year under IFRS.

Loan Portfolio

The following table analyzes our loans by product type. Except where otherwise specified, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect our loan portfolio, including principal amounts of past due loan and substandard loans. Any collateral provided generally consists of a mortgage on real estate, a pledge of marketable securities, a letter of credit or cash. The existence and amount of collateral generally vary from loan to loan.

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (in millions of Ch$) | | | | |
| Commercial Loans: | | | | | |
| Commercial loans | 8,985,452 | 8,324,949 | 7,797,682 | 7,316,417 | 6,602,372 |
| Foreign trade loans | 2,152,570 | 1,786,232 | 1,840,334 | 1,270,423 | 1,042,024 |
| Checking account debtors | 234,723 | 266,231 | 279,657 | 205,355 | 132,383 |
| Factoring transactions | 275,647 | 327,841 | 316,114 | 322,242 | 188,630 |
| Leasing transactions | 1,534,192 | 1,489,384 | 1,349,814 | 1,277,555 | 1,237,675 |
| Other loans and accounts receivable | 143,775 | 135,663 | 118,651 | 97,029 | 84,501 |
| Subtotal | 13,326,359 | 12,330,300 | 11,702,252 | 10,489,021 | 9,287,585 |
| | | | | | |
| Mortgage loans: | | | | | |
| Mortgage finance bond backed loans | 134,105 | 116,150 | 72,297 | 92,204 | 113,858 |
| Mortgage mutual loans | 44,028 | 57,356 | 71,833 | 46,105 | 71,878 |
| Other mortgage mutual loans | 7,634,717 | 6,458,525 | 5,481,682 | 5,133,272 | 4,929,927 |
| Subtotal | 7,812,850 | 6,632,031 | 5,625,812 | 5,271,581 | 5,115,663 |
| | | | | | |
| Consumer loans: | | | | | |
| Installment consumer loans | 2,469,646 | 2,320,775 | 2,168,121 | 1,857,657 | 1,808,594 |
| Credit card loans | 1,434,609 | 1,362,587 | 1,235,881 | 1,054,473 | 920,852 |
| Consumer leasing contracts | 5,460 | 5,270 | 3,451 | 3,688 | 3,727 |
| Other consumer loans | 240,956 | 229,743 | 199,795 | 199,659 | 210,673 |
| Subtotal | 4,150,671 | 3,918,375 | 3,607,248 | 3,115,477 | 2,943,846 |
| | | | | | |
| Subtotal Loans to customers | 25,289,880 | 22,880,706 | 20,935,312 | 18,876,079 | 17,347,094 |
| | | | | | |
| Interbank loans | 10,877 | 11,943 | 125,449 | 90,573 | 87,688 |
| | | | | | |
| Total | 25,300,757 | 22,892,649 | 21,060,761 | 18,966,652 | 17,434,782 |

The loan categories are as follows:

**Commercial loans**

*Commercial loans* are long-term and short-term loans, including checking overdraft lines for companies, granted in Chilean pesos, inflation linked, U.S.$ linked or denominated in U.S.$. The interest on these loans is fixed or variable and is used primarily to finance working capital or investments. General commercial loans also include factoring operations.

*Foreign trade loans* are fixed rate, short-term loans made in foreign currencies (principally U.S.$) to finance imports and exports.

*Checking account debtors* mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These loans can be endorsed to a third party.

*Factoring transactions* mainly include short-term loans to companies with a fixed monthly nominal rate backed by a company invoice.

*Leasing transactions* are agreements for the financial leasing of capital equipment and other property.

*Other loans and accounts receivable loans* include other loans and accounts payable.

**Mortgage loans**

*Mortgage mutual loans* mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These are financed by issuing mortgage bonds.

*Mortgage finance bond backed loans* are inflation-indexed, fixed or variable rate, long-term loans with monthly payments of principal and interest secured by a real property mortgage that are financed with mortgage finance bonds. At the time of approval, these types of mortgage loans cannot be more than 75% of the lower of the purchase price or the appraised value of the mortgaged property or such loan will be classified as a commercial loan. Mortgage bonds are our general obligations, and we are liable for all principal and accrued interest on such bonds. In addition, if the issuer of a mortgage finance bond becomes insolvent, the General Banking Law's liquidation procedures provide that these types of mortgage loans with their corresponding mortgage bonds shall be auctioned as a unit and the acquirer must continue paying the mortgage finance bonds under the same conditions as the original issuer.

*Other mortgage mutual loans* mainly include mortgage loans (fixed and variable rate) that are inflation-indexed long-term loans with monthly payments of principal and interest secured by a real property mortgage. These are financed by our general borrowings.

**Consumer loans**

*Installment consumer loans* are loans to individuals, granted in Chilean pesos, generally on a fixed rate nominal basis, to finance the purchase of consumer goods or to pay for services.

*Consumer loans through lines of credit* are checking overdraft lines to individuals, granted in Chilean pesos, generally on a fixed rate nominal basis and linked to an individual's checking account.

*Credit card loans* include credit card balances subject to nominal fixed rate interest charges.

*Consumer leasing contracts* are agreements for the financial leasing of automobiles and other property to individuals.

*Other loans and accounts receivable from customers* include draft lines for individuals.

**Non-client loans**

Interbank loans are fixed rate, short-term loans to financial institutions that operate in Chile.

Maturity and Interest Rate Sensitivity of Loans

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2015.

| | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years | Total balance as of December 31, 2015 |
|---|---|---|---|---|
| | (in millions of Ch$) | | | |
| General commercial loans | 4,640,615 | 3,235,176 | 1,992,287 | 9,868,078 |
| Foreign trade loans | 1,700,661 | 182,013 | 31,722 | 1,914,396 |
| Leasing contracts | 327,331 | 744,243 | 466,277 | 1,537,851 |
| Other outstanding loans | 6,034 | - | - | 6,034 |
| Subtotal commercial loans | 6,674,641 | 4,161,432 | 2,490,286 | 13,326,359 |
| Residential loans backed by mortgage bonds | 11,659 | 28,502 | 10,572 | 50,733 |
| Other residential mortgage loans | 425,462 | 1,441,862 | 5,894,793 | 7,762,117 |
| Subtotal residential mortgage loans | 437,121 | 1,470,364 | 5,905,365 | 7,812,850 |
| Consumer loans | 2,160,811 | 1,867,006 | 122,854 | 4,150,671 |
| Subtotal | 9,272,573 | 7,498,802 | 8,518,505 | 25,289,880 |
| Interbank loans | 10,877 | - | - | 10,877 |
| Total loans | 9,283,450 | 7,498,802 | 8,518,505 | 25,300,757 |

The following tables present the total amount of loans due after one year that have fixed and variable interest rates as of December 31, 2015. See also “Item 5. Operating and Financial Review and Prospects –A. Operating Results—Interest Rates.”

| | As of December 31, 2015 (in millions of Ch$) |
|---|---|
| Variable Rate | |
| Ch$ | 1,159 |
| UF | 623,256 |
| Foreign currencies | - |
| Subtotal | 624,415 |
| Fixed Rate | |
| Ch$ | 4,073,306 |
| UF | 10,408,698 |
| Foreign currencies | 910,887 |
| Subtotal | 15,392,891 |
| Total | 16,017,306 |

Loans by Economic Activity

The following table sets forth, at the dates indicated, an analysis of our client loan portfolio based on the borrower’s principal economic activity and geographic distribution. Loans to individuals for business purposes are allocated to their economic activity.

| | **Domestic loans (*) as of December 31,** | | | | | **Foreign loans (**) as of December 31,** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2013** | **2012** | **2011** | **2015** | **2014** | **2013** | **2012** | **2011** |
| | **(in millions of Ch$)** | | | | | **(in millions of Ch$)** | | | | |
| **Commercial loans** | | | | | | | | | | |
| Manufacturing | 1,171,830 | 1,126,268 | 1,216,914 | 1,014,777 | 834,011 | - | – | – | – | – |
| Mining | 510,467 | 428,847 | 464,865 | 292,217 | 266,442 | - | – | – | – | – |
| Electricity, gas and water | 454,456 | 567,548 | 222,110 | 337,269 | 221,039 | - | – | – | – | – |
| Agriculture and livestock | 1,019,922 | 871,247 | 806,092 | 770,558 | 760,527 | - | – | – | – | – |
| Forestry | 96,069 | 98,039 | 183,716 | 120,002 | 89,353 | - | – | – | – | – |
| Fishing | 344,496 | 256,818 | 265,917 | 188,803 | 144,162 | - | – | – | – | – |
| Transport | 876,329 | 758,339 | 721,931 | 511,407 | 473,414 | - | – | – | – | – |
| Communications | 160,135 | 167,004 | 249,499 | 179,544 | 252,528 | - | – | – | – | – |
| Construction | 1,462,535 | 1,365,841 | 1,337,791 | 1,130,194 | 980,797 | - | – | – | – | – |
| Commerce | 3,050,663 | 2,773,410 | 2,578,979 | 2,396,428 | 1,916,400 | 10,827 | 11,899 | 125,383 | 90,546 | 87,041 |
| Services | 483,516 | 469,141 | 447,861 | 400,716 | 384,061 | - | – | – | – | – |
| Other | 3,695,991 | 3,447,842 | 3,206,643 | 3,147,133 | 2,965,498 | - | – | – | – | – |
| **Subtotals** | **13,326,409** | **12,330,344** | **11,702,318** | **10,489,048** | **9,288,232** | **10,827** | **11,899** | **125,383** | **90,546** | **87,041** |
| **Mortgage loans** | **7,812,850** | **6,632,031** | **5,625,812** | **5,271,581** | **5,115,663** | **–** | **–** | **–** | **–** | **–** |
| **Consumer loans** | **4,150,671** | **3,918,375** | **3,607,248** | **3,115,477** | **2,943,846** | **–** | **–** | **–** | **–** | **–** |
| **Total** | **25,289,930** | **22,880,750** | **20,935,378** | **18,876,106** | **17,347,741** | **10,827** | **11,899** | **125,383** | **90,546** | **87,041** |

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| | **Total loans as of December 31,** | | | | | **% of total loans as of December 31,** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | **2014** | **2013** | **2012** | **2011** | **2015** | **2014** | **2013** | **2012** | **2011** |
| | **(in millions of Ch$)** | | | | | **(in millions of Ch$)** | | | | |
| **Commercial loans** | | | | | | | | | | |
| Manufacturing | 1,171,830 | 1,126,268 | 1,216,914 | 1,014,777 | 834,011 | 4.63% | 4.92% | 5.78% | 5.35% | 4.78% |
| Mining | 510,467 | 428,847 | 464,865 | 292,217 | 266,442 | 2.02% | 1.87% | 2.21% | 1.54% | 1.53% |
| Electricity, gas and water | 454,456 | 567,548 | 222,110 | 337,269 | 221,039 | 1.80% | 2.48% | 1.05% | 1.78% | 1.27% |
| Agriculture and livestock | 1,019,922 | 871,247 | 806,092 | 770,558 | 760,527 | 4.03% | 3.81% | 3.83% | 4.06% | 4.36% |
| Forestry | 96,069 | 98,039 | 183,716 | 120,002 | 89,353 | 0.38% | 0.43% | 0.87% | 0.63% | 0.51% |
| Fishing | 344,496 | 256,818 | 265,917 | 188,803 | 144,162 | 1.36% | 1.12% | 1.26% | 1.00% | 0.83% |
| Transport | 876,329 | 758,339 | 721,931 | 511,407 | 473,414 | 3.46% | 3.31% | 3.43% | 2.70% | 2.72% |
| Communications | 160,135 | 167,004 | 249,499 | 179,544 | 252,528 | 0.63% | 0.73% | 1.18% | 0.95% | 1.45% |
| Construction | 1,462,535 | 1,365,841 | 1,337,791 | 1,130,194 | 980,797 | 5.78% | 5.97% | 6.35% | 5.96% | 5.63% |
| Commerce | 3,061,490 | 2,773,410 | 2,704,362 | 2,486,974 | 2,003,441 | 12.10% | 12.17% | 12.84% | 13.11% | 11.49% |
| Services | 483,516 | 469,141 | 447,861 | 400,716 | 384,061 | 1.91% | 2.05% | 2.13% | 2.11% | 2.20% |
| Other | 3,695,991 | 3,447,842 | 3,206,643 | 3,147,133 | 2,965,498 | 14.61% | 15.06% | 15.23% | 16.59% | 17.01% |
| **Subtotals** | **13,337,236** | **12,330,344** | **11,827,701** | **10,579,594** | **9,375,273** | **52.71%** | **53.92%** | **56.16%** | **55.78%** | **53.78%** |
| **Mortgage loans** | **7,812,850** | **6,632,031** | **5,625,812** | **5,271,581** | **5,115,663** | **30.88%** | **28.99%** | **26.71%** | **27.79%** | **29.34%** |
| **Consumer loans** | **4,150,671** | **3,918,375** | **3,607,248** | **3,115,477** | **2,943,846** | **16.41%** | **17.17%** | **17.13%** | **16.43%** | **16.88%** |
| **Total** | **25,300,757** | **22,880,750** | **21,060,761** | **18,966,652** | **17,434,782** | **100.00%** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

(*) Includes domestic interbank loans for Ch$ 50 million as of December 31, 2015 (Ch$44 million as of December 31, 2014), see Note 8 of the Audited Consolidated Financial Statements.

(**) Includes foreign interbank loans for Ch$ 10,827 million as of December 31, 2015 (Ch$11,899 million as of December 31, 2014), see Note 8 of the Audited Consolidated Financial Statements.

Foreign Assets and Loans

Santander-Chile's Asset and Liability Committee, or ALCO, is responsible for determining the maximum foreign country exposure the Bank is permitted to have. The ALCO has determined that the total foreign country exposure cannot be greater than 1-time regulatory capital. To determine this, each country is classified using a ranking system from 1 to 6 based on the definition promulgated by the SBIF, in which the main consideration is the international rating of each country. The ALCO has also set a higher limit if the foreign exposure is to related parties. As of December 31, 2015, the Bank's foreign exposure, including the estimate of counterparty risk in our derivatives portfolio, was U.S.$2,090 million, or 4.3% of our assets. For more information please see note 37 of our Audited Consolidated Financial Statements.

Below, there are additional details regarding our exposure to countries in category 2 and 3, the riskiest categories we have exposure to as of December 31, 2015, considering fair value of derivative instruments. In this category Italy is the largest exposure and is also broke down below. We do not have sovereign exposure to Italy.

| **Country** | **Classification** (1) | **Derivative Instruments (adjusted to market) USD Mn** | **Deposits USD Mn** | **Loans USD Mn** | **Financial Investments USD Mn** | **Total Exposure USD Mn** |
|---|---|---|---|---|---|---|
| Colombia | 2 | 1.2 | - | - | - | 1.2 |
| Italy | 2 | 46.4 | 0.7 | - | - | 47.1 |
| Others | 3 | 1.3 | - | - | - | 1.3 |
| **Total** | | 48.9 | 0.7 | - | - | 49.6 |

(1) Corresponds to country's classification established in Chapter B-6 of the Compendium of Accounting Standards issued by the SBIF.

Our exposure to Grupo Santander is as follows:

| Counterpart | Country | Classification | Derivative instruments (market adjusted)* USD Mn | Deposits USD Mn | Loans USD Mn | Financial Investments USD Mn | Total Exposure USD Mn |
|---|---|---|---|---|---|---|---|
| Banco Santander Spain** | Spain | 1 | 20.1 | 357.5 | - | - | 377.6 |

* The total amount of this exposure to derivative instruments must be compensated daily with collateral and, therefore, the net credit exposure is US$ 0.28 million.

** We have included our exposure to Santander branches in New York and Hong Kong as exposure to Spain.

Furthermore, is additional detail regarding our exposure to the United States, which is the only country with more than 1% of exposure over total assets. Below we detail exposure to assets in the USA as of December 31, 2015, considering fair value of derivative instruments.

| Country | Classification (1) | Derivative Instruments (adjusted to market) USD Mn | Deposits USD Mn | Loans USD Mn | Financial Investments USD Mn | Total Exposure USD Mn |
|---|---|---|---|---|---|---|
| USA | 1 | 27.8 | 1,371.2 | - | 21.1 | 1,420.2 |

As of December 31, 2015, we had no applicable sovereign exposure, no unfunded exposure, no credit default protection and no current developments.

Classification of Loan Portfolio

Credit Review Process

The Risk Division, our credit analysis and risk management group, is largely independent of our Commercial Division. Risk evaluation teams interact regularly with our clients. For larger transactions, risk teams in our headquarters work directly with clients when evaluating credit risks and preparing credit applications. Various credit approval committees, all of which include Risk Division and Commercial Division personnel, must verify that the appropriate qualitative and quantitative parameters are met by each applicant. Each committee's powers are defined by our Board of Directors.

Santander-Chile's governance rules have established the existence of two high-level committees to monitor and control credit risks: the Executive Credit Committee and the Risk Committee. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk—A. Credit Risk" for more information.

Role of Santander Spain's Global Risk Department: Credit Risk

In matters regarding Credit Risk, Santander Spain's Global Risk Department has the following role:

- All credit risks greater than U.S.$40 million (U.S.$60 million for financial institutions), after being approved locally, are reviewed by Santander Spain. This additional review ensures that no global exposure limit is being breached.
- In standardized risks, the consumer and mortgage scoring models are developed locally but are reviewed and approved by Santander Spain's Global Risk Department.
- For each scoring model, a monthly Risk Report is prepared, which is reviewed locally and is also sent to Santander Spain's Global Risk Department. This report includes the evolution of basic credit risk parameters such as: loan amounts, non-performance, charge offs and provisions.
- Monthly, the Controller of the Risk Department sends a report to Santander Spain's Global Risk Department covering all the main indicators regarding credit risk and the evolution of credit risk as compared to the budgeted levels.

Credit Approval

The following diagram lists our committees from which credit approval is required depending on total risk exposure for loans evaluated on an individual basis:

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We also have a department designated to monitor the quality of the loan portfolio on a continuous basis. The purpose of this special supervision is to maintain constant scrutiny over the portions of the portfolio that represent the greatest risk and to anticipate any deterioration. Based on this ongoing review of the loan portfolio, we believe that we are able to detect potentially problematic loans and make a decision on a client's status. This includes measures such as reducing or extinguishing a loan, or requiring better collateral from the client. The control systems require that these loans be reviewed at least three times per year for those clients in the lowest category of credit watch.

Credit Approval: Loans approved on an individual basis

In preparing a credit proposal for a corporate client whose loans are approved on an individual basis, Santander-Chile's personnel verifies such parameters as debt servicing capacity (typically including projected cash flows), the company's financial history and projections for the economic sector in which it operates. The Risk Division is closely involved in this process, and prepares the credit application for the client. All proposals contain an analysis of the client's strengths and weaknesses, a rating and a recommendation. Credit limits are determined not on the basis of outstanding balances of individual clients, but on the direct and indirect credit risk of entire financial groups. For example, a corporation will be evaluated together with its subsidiaries and affiliates.

Credit Approval: Loans approved on a group basis

The majority of loans to individuals and small and mid-sized companies are approved by the Standardized Risk Area through an automated credit scoring system. This system is decentralized, automated and based on multiple parameters, including demographic and information regarding credit behavior from external sources and the SBIF.

Classification of Loan Portfolio

Loans are divided into: (i) consumer loans (including loans granted to individuals for the purpose of financing the acquisition of consumer goods or payment of services); (ii) residential mortgage loans (including loans granted to individuals for the acquisition, construction or repair of residential real estate, in which the value of the property covers at least 100% of the amount of the loan); and (iii) commercial loans (including all loans other than consumer loans and residential mortgage loans). The models and methods used to classify our loan portfolio and establish credit loss allowances must follow the following guiding principles, which have been approved by our Board of Directors.

Loans analyzed on an individual basis

For loans that are greater than Ch$150 million (US$286,000), the Bank uses internal models to assign a risk category level to each borrower and its respective loans. We consider the following risk factors: industry or sector of the borrower, the borrower's competitive position in its markets, owners or managers of the borrower, the borrower's financial situation, the borrower's payment capacity and the borrower's payment behavior to calculate the estimated incurred loan loss. Through these categories, we differentiate the normal loan portfolio from the impaired one.

These are our categories:

1. Debtors may be classified in risk categories A1, A2, A3 or B (if they are current on their payment obligations and show no sign of deterioration in their credit quality). B is different from the A categories by a certain history of late payments. The A categories are distinguished by different PNPs (as defined below).

2. Debtors classified as C1, C2, C3, C4, D1 or D2 include debtors whose loans with us have been charged off or administered by our Recovery Unit, or classified as *Precontenciosos* (PRECO or deteriorated).

For loans classified as A1, A2, A3 and B, we assign a specific provision level on an individual basis to each borrower and, therefore, the amount of loan loss allowance is determined on a case by case basis.

**Estimated Incurred Loan Loss = Loan Loss Allowance**

The estimated incurred loss is obtained by multiplying all risk factors defined in the following equation:

**EIL= EXP x PNP x SEV**

- EIL = Estimated Incurred Loan Loss. The estimated incurred loan loss is how much could be lost in the event a debtor does not perform the obligations under the loan.

- EXP = Exposure. This corresponds to the value of commercial loans.

- PNP = Probability of Non-Performance. This variable, expressed as a percentage, indicates the probability that a debtor will default. This percentage is associated with the internal rating that we give to each debtor, which is

determined by analyzing such parameters as debt servicing capacity.

- SEV = Severity. This is the effective loss rate given default for debtors in the same segment, which is determined statistically based on the historical effective losses for us for each segment.

Every year, models together with PNP and SEV assumptions, are tested by the Bank's Credit Risk Department, to ensure that they are appropriate at each reporting date so as to make sure any difference between the estimated incurred losses and real losses is reduced.

These tests focus on the validation of the sufficiency of the Bank's allowances, and consist of comparisons between actual write-offs to allowances established by the model, and the coverage of the total allowance to actual write-offs in the most current periods. Individual loan classification and improvements to any customer classification are also presented for approval to our Risk Committee.

Our internal policy requires us to update appraisals of the fair value of collateral every 24 months, which policy does not vary by loan product. The appraisal is required to be performed within a shorter period if market conditions in general or conditions in a specific sector or with respect to certain customers indicate that the fair value of the collateral may have changed and any updated fair value of the collateral is factored into our allowance for loan loss calculations. A change in fair value of the collateral may change the risk category or profile of a customer which could result in lower or higher allowance for loan losses.

In accordance with such policy, every year we update appraisals of fair value of collateral before the end of the 24 month period for certain customers and such updated appraisals are considered in the calculation of the allowance

for loan losses. The number of updated appraisals performed in 2012 was 72, in 2013 was 113, in 2014 was 98 and in 2015 was 43, and such updated appraisals were performed mainly because of changes in customer conditions (renegotiation deterioration of financial situation increase in credit line).

For loans classified in the C and D categories, loan loss allowances are based mainly on the fair value of the collateral, adjusted for an estimate cost to sell, that each of these loans have. Allowance percentage for each category is then based on the fair value of the collateral, or the expected future cash flow from the loan for each individually evaluated non-performing loans. As of December 31, 2015, loans classified in the C and D risk categories had the following associated loan loss allowance levels:

| **Classification** | **Allowance** |
|---|---|
| C1 | 2% |
| C2 | 10% |
| C3 | 25% |
| C4 | 40% |
| D1 | 65% |
| D2 | 90% |

Loans analyzed on a group basis

The Bank uses the concept of estimated incurred loss to quantify the allowances levels over loan analyzed on a group basis. Incurred loss is the expected provision expense that will appear one year away from the balance date of the transaction's credit risk, considering the counterpart risk and the collateral associated to each transaction.

Following the Bank's definition, the Bank uses group evaluation to approach transactions that have similar credit risk features, which indicate the debtor's payment capacity of the entire debt, capital and interests, pursuant to the contract's terms. In addition, this allows us to assess a high number of transactions with low individual amounts, whether they belong to individuals or small sized companies. Therefore, debtors and loans with similar features are grouped together and each group has a risk level assigned to it. These models are meant to be used mainly to analyze loans granted to individuals (including consumer loans, credit lines, mortgage loans and commercial loans) and commercial loans to SMEs.

Allowances are established using these models, taking into account the historical impairment and other known circumstances at the time of evaluation. After this, a historical loss rate is assigned to each portfolio profile constituting each segment. The method for assigning a profile is established based on a statistical building method, establishing a relation through a logistic regression various variables, such as payment behavior in the Bank, payment behavior outside the Bank, various socio-demographic data, among others, and a response variable that determines a client's risk level, which in this case is 90 days of non-performance. Afterwards, common profiles are established related to a logical order and with differentiate default rates, applying the real historical loss the Bank has had with that portfolio.

Our models for loans analyzed on a group basis (consumer loans, residential mortgage loans and small-and-mid-sized commercial loans) are monitored on a monthly basis with respect to predictability and stability, using indices that seek to capture the underlying need to update the models for current loss trends. Therefore, the periods of historical net charge-offs used in the allowance model may be more than a year old as we only update the historical net charge-offs only when our assessment of predictability and stability indicators determine it is necessary.

The different risk categories are constructed and updated periodically based on the payment behavior of the client's profile to which they belong, as well as his or her socio-demographic characteristics. Therefore, when a customer has past due balance or has missed some payments, the outcome is that the customer will move to a different segment with a higher loss rate, therefore capturing current trends for each risk profile.

Once the customers have been classified, the loan loss allowance is the product of three factors: Exposure (EXP), Probability of Non-Performance (PNP) and Severity (SEV).

EXP = Exposure. This corresponds to the value of commercial loans.

PNP = Probability of Non-Performing. This variable, expressed as a percentage, indicates the probability that a debtor will default. This percentage is associated with the internal score that we give to each debtor, which is determined by analyzing such parameters as debt servicing capacity (including, usually, projected cash flows), the company's financial history, the solvency and capacity of shareholders and management, and projections for the economic sector in which it operates. The internal rating can be different from ratings obtained from external third parties.

SEV = Severity. This is the effective loss rate given default for debtors in the same segment, which is determined statistically based on the historical effective losses for us for each segment.

PNP and SEV are reviewed and updated every three years. Every year, models together with PNP and SEV assumptions, are tested by the Bank's Credit Risk Department, to ensure that they are appropriate at each reporting date so as to make sure any difference between the estimated incurred losses and real losses is reduced.

Allowances for consumer loans

The estimated incurred loss rates for consumer loans correspond to charge-offs net of recoveries. The methodology establishes the period in which the estimated incurred loss for each risk profile emerges. Once the loss has been considered to have been incurred, the estimated incurred loss rates are applied to the corresponding risk profile to obtain the net charge-off level associated with this period. The loss rates applied to each risk profile are based only on the historical net charge-off data for that specific profile within one of the four groups of consumer loans. No other statistical or other information other than net charge-offs is used to determine the loss rates.

The following table sets forth the allowances required by our models for consumer loans from June 2012 to December 2014:

Bank:

| | | Allowance Level(1) (Loss rate) | |
|---|---|---|---|
| | | Not renegotiated | |
| Loan type | Risk Profile | New Clients | Existing Clients |
| Performing Consumer | Profile 1 | 24.5% | 20.9% |
| | Profile 2 | 14.0% | 10.1% |
| | Profile 3 | 7.3% | 5.0% |
| | Profile 4 | 3.4% | 2.1% |
| | Profile 5 | 2.1% | 1.4% |
| | Profile 6 | 1.3% | 0.9% |
| | Profile 7 | 0.8% | 0.5% |
| | Profile 8 | 0.4% | 0.3% |

| Loan type | Risk Profile | Allowance Level(1) (Loss rate)<br>Renegotiated |
|---|---|---|
| Renegotiated Consumer which were less than 90 days past due at the time of renegotiation | Profile 1 | 29.7% |
| | Profile 2 | 21.5% |
| | Profile 3 | 10.7% |
| | Profile 4 | 6.5% |
| | Profile 5 | 4.2% |
| | Profile 6 | 3.2% |

| Loan type | Risk Profile | Allowance Level(1) (Loss rate) |
|---|---|---|
| | | Renegotiated |
| Renegotiated Consumer which were more than 90 days past due at the time of renegotiation (2) | Profile 1 | 100.0% |
| | Profile 2 | 56.0% |
| | Profile 3 | 47.0% |
| | Profile 4 | 38.5% |

| Loan type | Days Past Due | Allowance Level(1) (Loss rate) | | |
|---|---|---|---|---|
| | | Not renegotiated | | |
| | | New Clients | Existing Clients | Renegotiated |
| Non-performing Consumer | 90-120 | 38.5% | 38.5% | 41.6% |
| | 120-150 | 47.0% | 47.0% | 48.8% |
| | 150-180 | 55.0% | 55.0% | 55.9% |
| | >180 | | Charged-off | |

Santander Banefe:

| Loan type | Risk Profile | Allowance Level(1) (Loss rate) | |
|---|---|---|---|
| | | Not renegotiated | |
| | | New Clients | Existing Clients |
| Performing Consumer | Profile 1 | 26.7% | 22.3% |
| | Profile 2 | 14.2% | 12.3% |
| | Profile 3 | 9.0% | 4.4% |
| | Profile 4 | 5.8% | 2.2% |
| | Profile 5 | 3.1% | 0.7% |
| | Profile 6 | 1.3% | 0.2% |
| | Profile 7 | – | 0.1% |

| Loan type | Risk Profile | Allowance Level(1) (Loss rate) |
|---|---|---|
| | | Renegotiated |
| Renegotiated Consumer which were less than 90 days past due at the time of renegotiation | Profile 1 | 36.6% |
| | Profile 2 | 29.6% |
| | Profile 3 | 21.0% |
| | Profile 4 | 12.2% |
| | Profile 5 | 7.1% |
| | Profile 6 | 5.2% |

| Loan type | Allowance Level(1) (Loss rate) |
|---|---|
| | Renegotiated |

| | Risk Profile | |
|---|---|---|
| Renegotiated Consumer which were more than 90 days past due at the time of renegotiation(2) | Profile 1 | 100.0% |
| | Profile 2 | 64.7% |
| | Profile 3 | 48.9% |
| | Profile 4 | 32.1% |

| Loan type | Past-due Days | Allowance Level(1) Not renegotiated New Clients | Existing Clients | Renegotiated (2) |
|---|---|---|---|---|
| Non-performing Consumer | 90-120 | 32.1% | 32.1% | 48.9% |
| | 120-150 | 37.4% | 37.4% | 55.8% |
| | 150-180 | 42.7% | 42.7% | 64.7% |
| | >180 | | Charged-off | |

1. Percentage of loans outstanding

2. This category relates only to loans which were renegotiated and were less than 90 days past due at the time of renegotiation, migrating from such category as they reached 90 days past due since renegotiation.

During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for consumer loans. The model was calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements consisted of implementing more robust techniques of statistical processes and more historical information, resulting in stronger parameters for the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in the release of consumer provisions of Ch$26,563 million in 2014. As this is a change in estimation, the impact of this improvement was recognized under the "Provisions for loan losses" in the Consolidated Statement of Income for the year in accordance with IAS 8. The most important improvement was the development of a separate model for our Santander Select customers, which are higher income clients. This is in line with the Bank’s strategy of reducing exposure to the low-end of the consumer market and growing in less risky segments. The following table sets forth the allowances required by our models for consumer loans since December 2014:

Bank:

| Loan type | Risk Profile | Allowance Level(1) (Loss rate) Not renegotiated New Clients | Existing Clients | Santander Select* |
|---|---|---|---|---|
| Performing Consumer | Profile 1 | 19.03% | 20.81% | 10.70% |
| | Profile 2 | 7.53% | 6.53% | 2.35% |
| | Profile 3 | 4.52% | 3.06% | 1.02% |
| | Profile 4 | 2.99% | 1.67% | 0.47% |
| | Profile 5 | 1.91% | 0.93% | 0.23% |
| | Profile 6 | 1.38% | 0.43% | 0.14% |
| | Profile 7 | 0.77% | 0.20% | 0.08% |
| | Profile 8 | 0.30% | 0.08% | 0.04% |

* Santander Select includes those clients attended to within the Santander Select distribution network, which is part of the Retail Banking segment.

| Loan type | Risk Profile | Allowance Level(1) (Loss rate) |
|---|---|---|
| | | Renegotiated |
| Renegotiated Consumer which were less than 90 days past due at the time of renegotiation (2) | Profile 1 | 29.14% |
| | Profile 2 | 25.78% |
| | Profile 3 | 21.57% |
| | Profile 4 | 17.58% |
| | Profile 5 | 13.47% |
| | Profile 6 | 10.84% |
| | Profile 7 | 8.12% |
| | Profile 8 | 5.37% |

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| Loan type | Risk Profile | Allowance Level(1) (Loss rate) Renegotiated |
|---|---|---|
| Renegotiated Consumer which were more than 90 days past due at the time of renegotiation (2) | Profile 1 | 100.0% |
| | Profile 2 | 52.92% |
| | Profile 3 | 44.99% |
| | Profile 4 | 37.17% |

| | | Allowance Level(1) (Loss rate) | | | |
|---|---|---|---|---|---|
| | | Not renegotiated | | | |
| Loan type | Days Past Due | New Clients | Existing Clients | Select | Renegotiated |
| Non-performing Consumer | 90-120 | 37.17% | 37.17% | 37.17% | 41.72% |
| | 120-150 | 44.99% | 44.99% | 44.99% | 47.68% |
| | 150-180 | 52.92% | 52.92% | 52.92% | 54.14% |
| | >180 | | | Charged-off | |

Santander Banefe:

| | | Allowance Level(1) (Loss rate) | |
|---|---|---|---|
| | | Not renegotiated | |
| Loan type | Risk Profile | New Clients | Existing Clients |
| Performing Consumer | Profile 1 | 24.45% | 18.95% |
| | Profile 2 | 13.53% | 7.14% |
| | Profile 3 | 9.12% | 3.27% |
| | Profile 4 | 7.39% | 1.90% |
| | Profile 5 | 6.47% | 0.94% |
| | Profile 6 | 4.74% | 0.60% |
| | Profile 7 | 3.68% | 0.28% |
| | Profile 8 | 1.35% | 0.17% |

| Loan type | Risk Profile | Allowance Level(1) (Loss rate) Renegotiated |
|---|---|---|
| Renegotiated Consumer which were less than 90 days past due at the time of renegotiation | Profile 1 | 32.09% |
| | Profile 2 | 29.67% |
| | Profile 3 | 27.96% |
| | Profile 4 | 24.17% |
| | Profile 5 | 18.67% |
| | Profile 6 | 14.79% |
| | Profile 7 | 11.22% |
| | Profile 8 | 8.78% |

Allowance Level(1) (Loss rate)

| Loan type | Risk Profile | Renegotiated |
| --- | --- | --- |
| Renegotiated Consumer which were more than 90 days past due at the time of renegotiation(2) | Profile 1 | 100.0% |
| | Profile 2 | 42.04% |
| | Profile 3 | 35.97% |
| | Profile 4 | 31.48% |

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| | | Allowance Level(1) | | |
|---|---|---|---|---|
| | | Not renegotiated | | |
| Loan type | Past-due Days | New Clients | Existing Clients | Renegotiated (2) |
| Non-performing Consumer | 90-120 | 31.48% | 31.48% | 44.50% |
| | 120-150 | 35.97% | 35.97% | 50.06% |
| | 150-180 | 42.04% | 42.04% | 58.56% |
| | >180 | | Charged-off | |

1. Percentage of loans outstanding

2. This category relates only to loans which were renegotiated and were less than 90 days past due at the time of renegotiation, migrating from such category as they reached 90 days past due since renegotiation.

There are two renegotiated categories in our consumer loan portfolio:

1. Renegotiated Consumer which were less than 90 days past due at the time of renegotiation. The allowance for loan loss percentages (or loss rates) are assigned based on six different risk profiles which are determined based on demographic and payment behavior variables.

2. Renegotiated Consumer which were more than 90 days past due at the time of renegotiation The loss rates are assigned based on four different risk profiles which are determined based on the number of days overdue at the time of renegotiation:

Profile 1: 180 or more days past due

Profile 2: between 150 and 180 days past due

Profile 3: between 120 and 150 days past due

Profile 4: between 90 and 120 days past due

Allowances for residential mortgage loans

As of June 2011, our provision methodology for residential mortgage loans takes into consideration different factors in order to group customers with less the 90 days past due into seven different risk profiles. Factors considered, in the first place, are whether the customer is a new customer or with prior history with the Bank or if it is a Banefe customer. For each of these three main categories additional factors are considered in order to develop risk profiles within each risk category, including payment behavior, non-performance less than 90 days, collateral levels, renegotiation history with the Bank, and historical amounts of net charge-offs, among others. The explanation for the initial segregation into three categories, existing, new or Banefe customer, is as follows: Banefe customers have a different risk profile as they relate to low income individuals; an existing customer (Banefe or Bank) is a customer for

which there is a broader level of information and history of payment behavior with the Bank, while for a new customer the Bank has no history of payment behavior and only information from the banking system and credit bureaus is available. The risk categories are such that when a customer's payment behavior deteriorates, the outcome is that the customer will move to a different risk category with a higher loss rate, therefore capturing the current status of the customer.

Mortgage loans with more than 90 days past due balances are assigned a loss rate of 11.01%. We determined that 90 days is appropriate, since our historical analysis of customer's behavior has shown that after 90 days, customers are likely to default on their obligations, and that, over succeeding periods, the loss incurred does not increase given the high fair value of collateral percentage to loan amount required under our credit policies for this type of loan. Also, we note that the Chilean economy's stability over the last few years has not resulted in other than insignificant fluctuations in collateral fair values on residential mortgage loan properties. When the customer becomes current in its payments, such customer will migrate to one of the profiles in the table above.

The following table sets forth the required loan loss allowance for residential mortgage loans since 2013:

| | | Allowance Level(1) (Loss rate) | | |
|---|---|---|---|---|
| Loan type | Risk Profile | New client | Old | Banefe |
| Residential mortgage | Profile 1 | 5.96% | 5.14% | 6.19% |
| | Profile 2 | 1.81% | 1.54% | 2.74% |
| | Profile 3 | 0.49% | 0.64% | 0.77% |
| | Profile 4 | 0.17% | 0.28% | 0.26% |
| | Profile 5 | 0.11% | 0.13% | 0.08% |
| | Profile 6 | 0.03% | 0.03% | 0.07% |
| | Profile 7 | | 0.02% | |

Small- and mid-sized commercial loans

To determine the estimated incurred loss for individuals (natural persons), small- and mid-sized commercial loans collectively evaluated for impairment, we mainly analyze the payment behavior of clients, particularly the payment behavior of clients with payments that are 90 days or more past-due, clients with other weaknesses, such as early non-performance (i.e., payments that are past-due, though by less than 90 days), clients with modified loans and clients with renegotiated loans, as well as success in recovery against these clients. We also consider whether the loan has underlying mortgage collateral.

The risk categories are such that when a customer has a past-due balance or has missed some payments, the outcome is that the customer will move to a different risk category with a higher loss rate, therefore capturing current trends of the customer and, in the aggregate, current trends in the market. In order to calculate the estimated incurred loan loss for all commercial loans collectively evaluated for impairment, the Bank sub-divided the portfolio in the following way:

Allowance Level

Small- and mid-sized commercial loans collectively evaluated for impairment

Loan type

| Non-renegotiated, w/o mortgage collateral, new client, % | | Non-renegotiated, w/o mortgage collateral, existing client, % | | Non-renegotiated, with mortgage collateral, % | |
|---|---|---|---|---|---|
| Profile 1 | 37.20% | Profile 1 | 37.20% | Profile 1 | 10.60% |
| Profile 2 | 31.93% | Profile 2 | 18.11% | Profile 2 | 4.42% |
| Profile 3 | 13.25% | Profile 3 | 4.45% | Profile 3 | 0.68% |
| Profile 4 | 5.09% | Profile 4 | 2.06% | Profile 4 | 0.17% |
| Profile 5 | 1.50% | Profile 5 | 0.52% | Profile 5 | 0.11% |
| Profile 6 | 0.55% | | | Profile 6 | 0.02% |
| Profile 7 | 0.05% | | | | |

| Renegotiated, % | |
|---|---|
| Profile 1 | 29.20% |
| Profile 2 | 19.42% |
| Profile 3 | 10.28% |
| Profile 4 | 3.75% |
| Profile 5 | 1.13% |
| Profile 6 | 0.13% |

During the second half of 2014, and as a response to the ongoing improvement of the allowances models for loans, the Bank updated its allowances model for commercial loans. The model was calibrated with the aim of improving the prediction of client behavior and maintaining statistical and management standards. Part of these improvements

consisted of implementing more robust statistical processes and more historical information, resulting in stronger parameters for the Probability of Non-Performance (PNP) and the Severity (SEV) involved in the provision calculation. These changes resulted in an increase in commercial provisions of Ch$45,141 million in 2014. Considering this impact and the reversal of Ch$26,563 million in the consumer loan provisioning model, the net increase of these improvements (Ch$18,578 million) was recognized under the “Provisions for loan losses” in the Consolidated Statement of Income for the year in accordance with IAS 8.

The following table sets forth the allowances required by our models for commercial loans assessed on a group basis since December 2014:

| Loan type | Risk Profile | Allowance Level(1) (Loss rate) Non-renegotiated client Commercial loan to individuals w/o mortgage collateral | Commercial loan to individuals with mortgage collateral | Small Enterprise | Mid-sized Enterprise |
|---|---|---|---|---|---|
| Performing commercial loan | Profile 1 | 30.60% | 6.66% | 13.24% | 11.31% |
| | Profile 2 | 26.81% | 2.73% | 5.34% | 6.24% |
| | Profile 3 | 20.37% | 0.95% | 2.87% | 3.23% |
| | Profile 4 | 10.80% | 0.45% | 1.67% | 2.43% |
| | Profile 5 | 5.69% | 0.23% | 0.90% | 1.28% |
| | Profile 6 | 4.48% | 0.11% | 0.44% | 0.66% |
| | Profile 7 | 1.96% | 0.03% | 0.19% | 0.32% |
| | Profile 8 | 1.15% | 6.66% | | 0.11% |

| Loan type | Risk Profile | Allowance Level(1) (Loss rate) Renegotiated client |
|---|---|---|
| Renegotiated client that was less than 90 days past due at the time of renegotiation | Profile 1 | 20.77% |
| | Profile 2 | 17.99% |
| | Profile 3 | 14.51% |
| | Profile 4 | 11.30% |
| | Profile 5 | 7.95% |
| | Profile 6 | 6.40% |
| | Profile 7 | 4.66% |

| **Loan type** | **Risk Profile (Days past due)** | Allowance level (loss rate) (1) Commercial loan to individuals w/o mortgage collateral | Commercial loan to individuals with mortgage collateral | Small Enterprise | Mid-sized Enterprise |
|---|---|---|---|---|---|
| Renegotiated commercial loans which were more than 90 days past due at the time of renegotiation (2) | Profile 1 (90-179 days) | 52.61% | 15.58% | 27.89% | 21.90% |
| | Profile 2 (180-359 days) | 52.61% | 23.46% | 42.33% | 37.15% |
| | Profile 3 (360-719 days) | 58.85% | 33.13% | 51.59% | 48.68% |
| | Profile 4 (>720 days) | 60.92% | 41.30% | 54.77% | 49.20% |

| **Loan type** | **Days past-due** | **Allowance level (loss rate) (1)** Commercial loan to individuals w/o | Commercial loan to individuals with | Small Enterprise | Mid-sized Enterprise | **Renegotiated** |
|---|---|---|---|---|---|---|

| | | mortgage collateral | mortgage collateral | | | |
|---|---|---|---|---|---|---|
| | 90-179 | 52.61% | 15.58% | 27.89% | 21.90% | 24.92% |
| Non-performing | 180-359 | 52.61% | 23.46% | 42.33% | 37.15% | 40.47% |
| commercial loan | 360-719 | 58.85% | 33.13% | 51.59% | 48.68% | 51.52% |
| | >720 | 60.92% | 41.30% | 54.77% | 49.20% | 57.18% |

(1) Percentage of loans outstanding

(2) This category relates only to loans which were renegotiated and were less than 90 days past due at the time of renegotiation, migrating from such category as they reached 90 days past due since renegotiation.

**Analysis of Santander-Chile's Loan Classification**

The following tables provide statistical data regarding the classification of our loans analyzed on an individual basis as of December 31, 2015, 2014 and 2013.

| | As of December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | 2014 | | | | 2013 | |
| Category | Individual Ch$mn | Percentage % | Allowance Ch$mn | Percentage % | Individual Ch$mn | Percentage % | Allowance Ch$mn | Percentage % | Individual Ch$mn | Percen % |
| **Individu-alized business** | | | | | | | | | | |
| A1 | 2,073,792 | 8.20 | 1,210 | 0.17 | 1,911,035 | 8.35 | 998 | 0.15 | 2,395,371 | 11.4 |
| A2 | 5,898,065 | 23.32 | 17,353 | 2.28 | 5,564,372 | 24.30 | 16,334 | 2.39 | 4,846,240 | 23.0 |
| A3 | 1,599,234 | 6.32 | 25,145 | 3.30 | 1,334,042 | 5.83 | 19,630 | 2.87 | 1,281,756 | 6.1 |
| B | 504,937 | 1.99 | 37,157 | 4.87 | 398,611 | 1.74 | 29,189 | 4.27 | 374,051 | 1.8 |
| C1 | 81,767 | 0.32 | 1,635 | 0.21 | 79,148 | 0.35 | 1,583 | 0.23 | 56,040 | 0.3 |
| C2 | 48,569 | 0.19 | 4,857 | 0.64 | 66,267 | 0.29 | 6,627 | 0.97 | 46,996 | 0.2 |
| C3 | 37,663 | 0.15 | 9,416 | 1.24 | 16,742 | 0.07 | 4,185 | 0.61 | 20,780 | 0.1 |
| C4 | 69,952 | 0.28 | 27,981 | 3.67 | 33,074 | 0.14 | 13,229 | 1.93 | 43,109 | 0.2 |
| D1 | 76,157 | 0.30 | 49,503 | 6.49 | 59,585 | 0.26 | 38,730 | 5.66 | 61,246 | 0.3 |
| D2 | 92,682 | 0.36 | 83,414 | 10.94 | 94,832 | 0.41 | 85,348 | 12.47 | 64,755 | 0.3 |
| Total | 10,482,818 | 41.43 | 257,671 | 33.81 | 9,557,708 | 41.74 | 215,853 | 31.55 | 9,190,344 | 43.7 |

Classification of Loan Portfolio Based on the Borrower's Payment Performance

Non-performing loans include the aggregate principal and accrued but unpaid interest of any loan with one installment that is at least 90 days past-due, and do not accrue interest.

Impaired loans include: (a) for loans individually evaluated for impairment: (i) the carrying amount of all loans to clients that are rated C1 through C4, D1 and D2 and (ii) the carrying amount of all loans to an individual client with at least one non-performing loan (which is not a residential mortgage loan past due less than 90 days), regardless of category; and (b) for loans collectively evaluated for impairment, the carrying amount of all loans to a client, when at least one loan to that client is not performing or has been renegotiated. See "Note 9—Loans and Accounts Receivables from Customers" of the Audited Consolidated Financial Statements. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing loans, but do not accrue interest.

**Charge-offs**

As a general rule, charge-offs should be done when all collection efforts have been exhausted. These charge-offs consist of derecognition from the Consolidated Statements of Financial Position of the corresponding loans operations in its entirety, and, therefore, include portions not past-due of a loan in the case of installments loans or leasing operations (no partial charge-offs exists). Subsequent payments obtained from charged-off loans will be recognized in the Consolidated Statement of Income as a recovery of loans previously charged-off. Loan and accounts receivable charge-offs are recorded for overdue, past due, and current installments based on the time periods expired since reaching overdue status, as described below:

| Type of contract | Term |
| --- | --- |
| Consumer loans with or without collateral | 6 months |
| Other transactions without collateral | 24 months |
| Commercial loans with collateral | 36 months |
| Mortgage loans | 48 months |
| Consumer leasing | 6 months |
| Other non-mortgage leasing transactions | 12 months |
| Mortgage leasing (household and business) | 36 months |

Any payment agreement of an already charged-off loan will not give rise to income-as long as the operation is still in an impaired status-and the effective payments received are accounted for as a recovery from loans previously charged-off. In general, legal collection proceedings are commenced with respect to consumer loans once they are past-due for at least 90 days and, with respect to mortgage loans, once they are past-due for at least 120 days. Legal collection proceedings are always commenced within one year of such loans becoming past-due, unless we determine that the size of the past-due amount does not warrant such proceedings. In addition, the majority of our

commercial loans are short-term, with single payments at maturity. Past-due loans are required to be covered by individual loan loss reserves equivalent to 100.0% of any unsecured portion thereof.

The following table sets forth all of our non-performing loans and impaired loans as of December 31, 2015, 2014, 2013, 2012 and 2011.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | (in millions of Ch$, except percentages) | | | | |
| Non-performing loans (1) | 643,468 | 644,327 | 613,301 | 597,767 | 511,357 |
| Impaired loans (2) | 1,669,340 | 1,617,251 | 1,477,701 | 1,338,137 | 1,323,355 |
| Allowance for loan losses (3) | 762,301 | 684,317 | 614,933 | 550,048 | 488,468 |
| Total loans (4) | 25,300,757 | 22,892,649 | 21,060,761 | 18,966,652 | 17,434,782 |
| Allowance for loan losses / loans | 3.01 % | 2.99 % | 2.92 % | 2.90 % | 2.80 % |
| Non-performing loans as a percentage of total loans | 2.54 % | 2.81 % | 2.91 % | 3.15 % | 2.93 % |
| Loan loss allowance as a percentage of non-performing loans | 118.00 % | 106.21 % | 100.27 % | 92.02 % | 95.52 % |

(1) Non-performing loans include the aggregate principal and accrued but unpaid interest of any loan with one installment that is at least 90 days past-due, and do not accrue interest.

(2) Impaired loans include: (a) for loans individually evaluated for impairment: (i) the carrying amount of all loans to clients that are rated C1 through C4, D1 and D2 and (ii) the carrying amount of all loans to an individual client with at least one non-performing loan (which is not a residential mortgage loan past due less than 90 days), regardless of category; and (b) for loans collectively evaluated for impairment, the carrying amount of all loans to a client, when at least one loan to that client is not performing or has been renegotiated. See “Note 9—Loans and Accounts Receivables from Customers” of the Audited Consolidated Financial Statements. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing loans, but do not accrue interest.

(3) Includes allowance for interbank loans.

(4) Includes interbank loans.

We suspend the accrual of interest and readjustments on all past-due loans. Interest revenue and expense are recorded on an accrual basis using the effective interest method. However, when a loan is past-due by 90 days or more, when an obligation originated from a refinancing or renegotiation or when the Bank believes that the debtor poses a high risk of default, the interest pertaining to these is not recorded directly in the Consolidated Statement of Income unless it has been actually received. See “Note 1—Summary of Significant Accounting Principles—(h) Valuation of financial assets and liabilities and recognition of fair value changes” and “Note 25—Interest Income” of the Audited Consolidated Financial Statements. These interest and adjustments balances are generally referred to as “suspended” and are recorded in suspense accounts which are not part of the Consolidated Statements of Financial Position. Instead, they are reported as part of the complementary information thereto. See “Note 25—Interest Income” of the Audited Consolidated Financial Statements. This interest is recognized as income, when collected, and as a reversal of the related impairment losses.

The Bank ceases accruing interest on the basis of contractual terms on the principal amount of any asset that is classified as an impaired asset. Thereafter, the Bank recognizes as interest income the accretion of the net present value of the written down amount of the loan due to the passage of time based on the original effective interest rate of the loan. On the other hand, any collected interest for any assets classified as impaired are accounted for on a cash basis.

At the period end, the detail of income from suspended interest is as follows:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| Suspended interest | Ch$ million | | | | |
| Commercial loans | 23,310 | 24,753 | 21,645 | 20,595 | 17,554 |
| Mortgage loans | 13,268 | 12,454 | 8,484 | 8,844 | 9,343 |
| Consumer loans | 6,224 | 6,336 | 6,753 | 8,742 | 9,246 |
| Totals | 42,802 | 43,543 | 36,882 | 38,181 | 36,143 |

Analysis of Impaired and Non-Performing Loans

The following table analyzes our impaired loans. Impaired loans include: (i) all loans to a single client that are evaluated on a group basis, including performing loans, that have a loan classified as non-performing, (ii) all renegotiated consumer loans and (iii) all commercial loans at risk of default. See "Note 9—Loans and Accounts Receivables from Customers—(a) Loans and accounts receivable from customers" in the Audited Consolidated Financial Statements.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | (Ch$ million) | | | | |
| Total loans | 25,300,757 | 22,892,649 | 21,060,761 | 18,966,652 | 17,434,782 |
| Allowance for loan losses | 762,301 | 684,317 | 614,933 | 550,048 | 488,468 |
| Impaired loans(1) | 1,669,340 | 1,617,251 | 1,477,701 | 1,338,137 | 1,323,355 |
| Impaired loans as a percentage of total loans | 6.60 % | 7.06 % | 7.02 % | 7.06 % | 7.59 % |
| Amounts non-performing | 643,468 | 644,327 | 613,301 | 597,767 | 511,357 |
| To the extent secured(2) | 283,731 | 296,899 | 295,503 | 306,782 | 264,355 |
| To the extent unsecured | 359,737 | 347,428 | 317,798 | 290,985 | 247,002 |
| Amounts non-performing as a percentage of total loans | 2.54 % | 2.81 % | 2.91 % | 3.15 % | 2.93 % |
| To the extent secured(2) | 1.12 % | 1.30 % | 1.40 % | 1.62 % | 1.52 % |
| To the extent unsecured | 1.42 % | 1.52 % | 1.51 % | 1.53 % | 1.42 % |
| Loans loss allowances as a percentage of: | | | | | |
| Total loans | 3.01 % | 2.99 % | 2.92 % | 2.90 % | 2.80 % |
| Total amounts non-performing | 118.5 % | 106.21 % | 100.27 % | 92.02 % | 95.52 % |
| Total amounts non-performing-unsecured | 211.9 % | 196.97 % | 193.50 % | 189.03 % | 197.76 % |

(1) Impaired loans include: (a) for loans individually evaluated for impairment: (i) the carrying amount of all loans to clients that are rated C1 through C4, D1 and D2 and (ii) the carrying amount of all loans to an individual client with at least one non-performing loan (which is not a residential mortgage loan past due less than 90 days), regardless of category; and (b) for loans collectively evaluated for impairment, the carrying amount of all loans to a client, when at least one loan to that client is not performing or has been renegotiated. See "Note 9—Loans and Accounts Receivables from Customers" in the Audited Consolidated Financial Statements. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing loans, but do not accrue interest.

(2) Security generally consists of mortgages on real estate, pledges of marketable securities, letters of credit or cash.

A break-down of the loans included in the previous table which have been classified as impaired, including renegotiated loans, is as follows:

As of December 31, 2015

| Impaired loans | Commercial | Residential mortgage | Consumer | Total |
|---|---|---|---|---|
| | (in millions of Ch$) | | | |
| Non-performing loans | 346,868 | 183,133 | 113,467 | 643,468 |
| Commercial loans at risk of default (1) | 486,685 | - | - | 486,685 |
| Other impaired loans consisting mainly of renegotiated loans (2) | 108,330 | 213,014 | 217,843 | 539,187 |
| Total | 941,883 | 396,147 | 331,310 | 1,669,340 |

As of December 31, 2014

| Impaired loans | Commercial | Residential mortgage | Consumer | Total |
|---|---|---|---|---|
| | (in millions of Ch$) | | | |
| Non-performing loans | 367,791 | 179,417 | 97,119 | 644,327 |
| Commercial loans at risk of default (1) | 420,038 | – | – | 420,038 |
| Other impaired loans consisting mainly of renegotiated loans (2) | 95,335 | 191,186 | 266,365 | 552,886 |
| Total | 883,164 | 370,603 | 363,484 | 1,617,251 |

As of December 31, 2013

| Impaired loans | Commercial | Residential mortgage | Consumer | Total |
|---|---|---|---|---|
| | (in millions of Ch$) | | | |
| Non-performing loans | 364,890 | 155,688 | 92,723 | 613,301 |
| Commercial loans at risk of default (1) | 317,534 | – | – | 317,534 |
| Other impaired loans consisting mainly of renegotiated loans (2) | 122,464 | 167,713 | 256,689 | 546,866 |
| Total | 804,888 | 323,401 | 349,412 | 1,477,701 |

As of December 31, 2012

| Impaired loans | Commercial | Residential mortgage | Consumer | Total |
|---|---|---|---|---|
| | (in millions of Ch$) | | | |
| Non-performing loans | 320,461 | 159,802 | 117,504 | 597,767 |
| Commercial loans at risk of default (1) | 298,868 | – | – | 298,868 |
| Other impaired loans consisting mainly of renegotiated loans (2) | 96,793 | 69,228 | 275,481 | 441,502 |
| Total | 716,122 | 229,030 | 392,985 | 1,338,137 |

As of December 31, 2011

| Impaired loans | Commercial | Residential mortgage | Consumer | Total |
|---|---|---|---|---|
| | (in millions of Ch$) | | | |
| Non-performing loans | 251,881 | 152,911 | 106,565 | 511,357 |
| Commercial loans at risk of default (1) | 285,930 | – | – | 285,930 |
| Other impaired loans consisting mainly of renegotiated loans (2) | 164,158 | 46,785 | 315,125 | 526,068 |
| Total | 701,969 | 199,696 | 421,690 | 1,323,355 |

(1) Total loans to a debtor, whose allowance level is determined on an individual basis with a risk of defaulting.

(2) Renegotiated loans for loans whose loan loss allowance is analyzed on a group basis.

Renegotiated Loans

In certain instances, we renegotiate loans that have one or more principal or interest payments past-due. The type of concession we most often afford when renegotiating a loan is a reduction in interest payment or, on rare occasions, forgiveness of principal. We estimate that less than 0.5% of renegotiated loans relate to the forgiveness of principal, and the remaining 99.5% relates to reduction of interest payments. Any amount of principal forgiven is charged off directly to income as of the date the loan is renegotiated, if not already covered by an allowance for loan loss. Renegotiated loans, on which payments are not past-due, are not ordinarily classified as non-performing, but do not accrue interest, and they are considered to be impaired for the life of the loan, both for disclosure purposes and in our determination of our allowances for loan losses, and never moved out of renegotiated status. The effects of the amount of interest to be accrued were not material to “Loans and receivables from customers, net” on our Consolidated Statement of Financial Position.

The following table shows the success rate, for the periods indicated, for renegotiated consumer and residential mortgage loans. The success rate for consumer loans is defined for each reported period as: (i) the total amount of loans renegotiated in that period minus the amount of such renegotiated loans that are classified as non-performing loans as of December 31, 2014 or 2015, as applicable, minus the amount of such renegotiated loans that have been charged off as of December 31, 2014 or 2015, as applicable, divided by (ii) the total amount of such renegotiated loans. The success rate for residential mortgage loans is defined for each reported period as: (i) the total amount of loans renegotiated in that period minus the amount of such renegotiated loans that are classified as non-performing loans as of December 31, 2014 or 2015, as applicable, divided by (ii) the total amount of such renegotiated loans. A charge-off of a residential mortgage loan is not generally included in measuring the success rate of mortgage renegotiations since the period to charge-off a mortgage loan is 48 months after an installment is past-due.

| Period of renegotiation | Success rate Consumer Loans | Success rate Residential mortgage loans |
|---|---|---|
| 1Q 2014 | 62.2% | 81.2% |
| 2Q 2014 | 63.9% | 84.5% |
| 3Q 2014 | 66.2% | 88.9% |
| 4Q 2014 | 70.7% | 87.0% |
| 1Q 2015 | 71.2% | 84.2% |
| 2Q 2015 | 77.0% | 86.9% |
| 3Q 2015 | 79.8% | 94.6% |
| 4Q 2015 | 96.3% | 93.9% |

From time to time, we modify loans that are not classified as non-performing if a client is confronting a financial difficulty, such as unemployment or another temporary situation. These loans are not classified as renegotiated for disclosure purposes, but are considered as renegotiated for our provisioning models. The following table provides information regarding loans collectively evaluated for impairment that are classified as “modified:”

| Modified loans(1) (Ch$mn) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Commercial loans collectively evaluated for impairment | 156,055 | 169,725 | 169,285 |
| Residential mortgage loans | 223,645 | 228,856 | 287,730 |
| Consumer loans | 178,244 | 243,441 | 251,795 |
| Total modified loans | 557,944 | 642,022 | 708,810 |

(1) Modified loans include loans collectively evaluated for impairment that were not classified as non-performing in which certain concessions were made to the client. The main type of concession given by the Bank is a reduction of interest, with forgiveness of principal occurring on rare occasions.

The modified loans included in the table above represent the full balance of all modified loans regardless of the date of modification. When a loan is marked as modified, we do not remove it from this status until paid in full. Our provisioning models currently consider a modified loan to be renegotiated for the life of the loan. Modified loans are included in the same pool of loans together with renegotiated loans for the life of the loans.

Analysis of Loan Loss Allowances

The following table provides the details of the roll-forwards in 2015, 2014, 2013, 2012 and 2011 of our allowance for loan losses, including decrease of allowances due to charge-offs, allowances established, allowances released, gross provision expense and opening and closing balance:

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| Activity during 2015 | Commercial loans | | Mortgage loans | Consumer loans | Interbank loan | Total |
|---|---|---|---|---|---|---|
| | Individual MCh$ | Group MCh$ | Group MCh$ | Group MCh$ | | |
| Balances as of December 31, 2014 | 215,852 | 165,697 | 48,744 | 254,023 | 1 | 684,317 |
| Allowances established (1) | 124,968 | 77,723 | 23,416 | 145,382 | 1,357 | 372,846 |
| Allowances released (2) | (46,614) | (17,885) | (7,205) | (18,126) | (192) | (90,022) |
| Released allowances by charge-off (3) | (37,701) | (50,839) | (2,528) | (113,772) | - | (204,840) |
| Balances as of December 31, 2015 | 256,505 | 174,696 | 62,427 | 267,507 | 1,166 | 762,301 |

| Activity during 2014 | Commercial loans | | Mortgage loans | Consumer loans | Interbank loan | Total |
|---|---|---|---|---|---|---|
| | Individual | Group | Group | Group | | |
| | (in millions of Ch$) | | | | | |
| Balance as of December 31, 2013 | 206,377 | 100,170 | 43,306 | 264,585 | 495 | 614,933 |
| Allowances established (1) | 52,240 | 99,648 | 14,959 | 129,410 | 60 | 296,317 |
| Allowances released (2) | (15,903) | (7,127) | (6,561) | (38,275) | (554) | (68,420) |
| Released allowances by charge-off (3) | (26,862) | (26,994) | (2,960) | (101,697) | — | (158,513) |
| Balances as of December 31, 2014 | 215,852 | 165,697 | 48,744 | 254,023 | 1 | 684,317 |

| Activity during 2013 | Commercial loans | | Mortgage loans | Consumer loans | Interbank loan | Total |
|---|---|---|---|---|---|---|
| | Individual | Group | Group | Group | | |
| | (in millions of Ch$) | | | | | |
| Balance as of December 31, 2012 | 154,702 | 95,938 | 35,990 | 263,259 | 159 | 550,048 |
| Allowances established (1) | 92,008 | 36,724 | 21,314 | 155,921 | 455 | 306,422 |
| Allowances released (2) | (22,014) | (11,151) | (9,216) | (35,482) | (119) | (77,982) |
| Released allowances by charge-off (3) | (18,319) | (21,341) | (4,782) | (119,113) | — | (163,555) |
| Balances as of December 31, 2013 | 206,377 | 100,170 | 43,306 | 264,585 | 495 | 614,933 |

| Activity during 2012 | Commercial loans | | Mortgage loans | Consumer loans | Interbank loan | Total |
|---|---|---|---|---|---|---|
| | Individual MCh$ | Group MCh$ | Group MCh$ | Group MCh$ | | |
| Balances as of December 31, 2011 | 112,687 | 97,115 | 35,633 | 243,022 | 11 | 488,468 |
| Allowances established (1) | 83,742 | 31,772 | 10,741 | 239,607 | 548 | 366,410 |
| Allowances released (2) | (20,716) | (16,624) | (7,449) | (38,471) | (400) | (83,660) |
| Charge-off released allowances (3) | (21,011) | (16,325) | (2,935) | (180,899) | — | (221,170) |
| Balances as of December 31, 2012 | 154,702 | 95,938 | 35,990 | 263,259 | 159 | 550,048 |

| Activity during 2011 | Commercial loans | | Mortgage loans | Consumer loans | Interbank loan | Total |
|---|---|---|---|---|---|---|
| | Individual MCh$ | Group MCh$ | Group MCh$ | Group MCh$ | | |
| Balances as of December 31, 2010 | 96,560 | 85,942 | 17,332 | 225,559 | 54 | 425,447 |
| Allowances established (1) | 72,927 | 72,601 | 27,406 | 184,488 | 464 | 357,886 |
| Allowances released (2) | (41,741 ) | (26,582) | (7,645 ) | (25,185 ) | (507 ) | (101,660) |
| Charge-off released allowances (3) | (15,059 ) | (34,846) | (1,460 ) | (141,840) | — | (193,205) |
| Balances as of December 31, 2011 | 112,687 | 97,115 | 35,633 | 243,022 | 11 | 488,468 |

(1) Represents gross allowances made in respect of increased risk of loss during the period and loan growth.

(2) Represents the gross amount of loan loss allowances released during the year as a consequence of reduction in the level of risk existing in the loan portfolio, including as a result of improvement in the credit risk classification of borrowers and loans paid.

(3) Represents the gross amount of loan loss allowances removed due to charge-off.

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The following table shows recoveries by type of loan:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (in millions of Ch$) | | | | |
| Recovery of loans previously charged-off | | | | | |
| Consumer loans | 35,565 | 36,908 | 36,004 | 22,015 | 12,474 |
| Residential mortgage loans | 6,543 | 5,122 | 4,735 | 2,305 | 16,135 |
| Commercial loans | 26,032 | 16,947 | 14,545 | 8,695 | 7,216 |
| Total recoveries | 68,140 | 58,977 | 55,284 | 33,015 | 35,825 |

Allocation of the Loan Loss Allowances

The following tables set forth, as of December 31 of each of the five years listed below, the proportions of our required loan loss allowances that were attributable to our commercial, consumer and residential mortgage loans at each such date.

| | As of December 31, 2015 | | | | As of December 31, 2014 | | | | As of December | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total Allowance | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Allowance amount as a percentage of total allocated allowances | Total Allowance | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Allowance amount as a percentage of total allocated allowances | Total Allowance | Allow amou a perce of loa categ |
| | Ch$ million | | | | Ch$ million | | | | Ch$ million | |
| **Commercial loans** | | | | | | | | | | |
| Commercial loans | 305,465 | 3.4% | 1.2% | 40.1% | 269,185 | 3.2% | 1.2% | 39.3% | 208,619 | 2.7% |
| Foreign trade loans | 67,104 | 3.1% | 0.3% | 8.8% | 56,800 | 3.2% | 0.2% | 8.3% | 53,005 | 2.9% |
| Checking accounts debtors | 9,869 | 4.2% | – | 1.3% | 10,009 | 3.8% | – | 1.4% | 8,376 | 3.0% |
| Factoring transactions | 5,955 | 2.2% | – | 0.8% | 4,868 | 1.5% | – | 0.7% | 5,054 | 1.6% |
| Leasing transactions | 25,437 | 1.7% | 0.1% | 3.3% | 23,734 | 1.6% | 0.1% | 3.5% | 19,177 | 1.4% |
| Other loans and accounts receivable | 17,371 | 12.1% | 0.1% | 2.3% | 16,953 | 12.5% | 0.1% | 2.5% | 12,316 | 10.4 |
| **Subtotals** | 431,201 | 3.2% | 1.7% | 56.6% | 381,549 | 3.1% | 1.6% | 55.7% | 306,547 | 2.6% |
| **Residential mortgage loans** | | | | | | | | | | |
| Loans with mortgage finance bonds | 336 | 0.8% | – | – | 353 | 0.6% | – | 0.1% | 470 | 0.7% |
| Mortgage mutual loans | 848 | 0.6% | – | 0.1% | 552 | 0.5% | – | 0.1% | 380 | 0.5% |
| Other mortgage mutual loans | 61,243 | 0.8% | 0.2% | 8.0% | 47,839 | 0.7% | 0.2% | 7.0% | 42,456 | 0.8% |
| **Subtotals** | 62,427 | 0.8% | 0.2% | 8.1% | 48,744 | 0.7% | 0.2% | 7.2% | 43,306 | 0.8% |
| **Consumer loans** | | | | | | | | | | |
| Installment consumer loans | 215,914 | 8.7% | 0.9% | 28.3% | 201,931 | 8.7% | 0.9% | 29.5% | 221,723 | 10.2 |
| Credit card balances | 43,159 | 3.0% | 0.2% | 5.7% | 44,050 | 3.2% | 0.2% | 6.4% | 37,300 | 3.0% |
| Consumer leasing contracts | 79 | 1.4% | – | – | 80 | 1.5% | – | – | 68 | 2.0% |
| Other consumer | 8,355 | 3.5% | – | 1.1% | 7,962 | 3.5% | – | 1.2% | 5,494 | 2.7% |

| loans | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Subtotals** | 267,507 | 6.4% | 1.1% | 35.1% | 254,023 | 6.5% | 1.1% | 37.1% | 264,585 | 7.3% |
| **Totals loans to clients** | 761,135 | 3.0% | 3.0% | 99.8% | 648,316 | 3.11% | 2.9% | 100.0% | 614,438 | 2.9% |
| Interbank loans | 1,166 | 10.7% | – | 0.2% | 1 | – | – | – | 495 | 0.4% |
| **Totals** | 762,301 | 3.0% | 3.0% | 100.0% | 648,317 | 3.0% | 2.9% | 100.0% | 614,933 | 2.9% |

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| | As of December 31, 2012 | | | | As of December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Allowance | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Allowance amount as a percentage of total allocated allowances | Total Allowance | Allowance amount as a percentage of loans in category | Allowance amount as a percentage of total loans | Allowance amount as a percentage of total allocated allowances |
| | Ch$ million | | | | Ch$ million | | | |
| Commercial loans | | | | | | | | |
| Commercial loans | 199,841 | 2.7 % | 1.1 % | 36.3 % | 161,289 | 2.4 % | 0.9 % | 33.0 % |
| Foreign trade loans | 18,535 | 1.5 % | 0.1 % | 3.4 % | 19,764 | 1.9 % | 0.1 % | 4.1 % |
| Draft loans | 3,033 | 1.5 % | – | 0.6 % | 3,384 | 2.6 % | 0.0 % | 0.7 % |
| Factoring transactions | 3,683 | 1.1 % | – | 0.7 % | 1,861 | 1.0 % | 0.0 % | 0.4 % |
| Leasing transactions | 23,426 | 1.8 % | 0.1 % | 4.3 % | 19,266 | 1.6 % | 0.1 % | 3.9 % |
| Other loans and accounts receivable | 2,122 | 2.2 % | – | 0.4 % | 4,238 | 5.0 % | 0.0 % | 0.9 % |
| Subtotals | 250,640 | 2.4 % | 1.3 % | 45.7 % | 209,802 | 2.3 % | 1.2 % | 4.3 % |
| Residential mortgage loans | | | | | | | | |
| Loans with letters of credit | 493 | 0.5 % | – | 0.1 % | 707 | 0.6 % | – | 0.1 % |
| Mortgage mutual loans | 936 | 2.0 % | – | 0.2 % | 1,241 | 1.7 % | – | 0.2 % |
| Other mortgage mutual loans | 34,561 | 0.7 % | 0.2 % | 6.3 % | 33,685 | 0.7 % | 0.2 % | 6.9 % |
| Subtotals | 35,990 | 0.7 % | 0.2 % | 6.6 % | 35,633 | 0.7 % | 0.2 % | 7.2 % |
| Consumer loans | | | | | | | | |
| Installment consumer loans | 218,474 | 11.8 % | 1.2 % | 39.7 % | 193,874 | 10.7 % | 1.1 % | 39.7 % |
| Credit card balances | 38,719 | 3.7 % | 0.2 % | 7.0 % | 43,922 | 4.8 % | 0.3 % | 9.0 % |
| Consumer leasing contracts | 160 | 4.3 % | – | – | 109 | 2.9 % | – | – |
| Other consumer loans | 5,906 | 3.0 % | – | 1.0 % | 5,117 | 2.4 % | – | 1.1 % |
| Subtotals | 263,259 | 8.5 % | 1.4 % | 47.7 % | 243,022 | 8.3 % | 1.4 % | 49.8 % |
| Totals loans to clients | 549,889 | 2.9 % | 2.9 % | 100.0 % | 488,457 | 2.8 % | 2.8 % | 100.0 % |
| Interbank | 159 | 0.2 % | – | – | 11 | – | – | – |
| Totals | 550,048 | 2.9 % | 2.9 % | 100.0 % | 488,468 | 2.8 % | 2.8 % | 100.0 % |

Based on information available regarding our borrowers, we believe that our loan loss allowances are sufficient to cover known potential losses and losses inherent in a loan portfolio of the size and nature of our loan portfolio.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors

We are managed by our Board of Directors, which, in accordance with our by-laws, consists of 11 directors and two alternates who are elected at our ordinary shareholders' meetings. Except as noted below, the current members of the Board of Directors were elected by the shareholders in the ordinary shareholders' meeting held on April 26, 2016. Members of the Board of Directors are elected for three-year terms. Except as noted below, the term of each of the current board members expires in April of 2017. Cumulative voting is permitted for the election of directors. The Board of Directors may appoint replacements to fill any vacancies that occur during periods between elections. If any member of the Board of Directors resigns before his or her term has ended, and no other alternate director is available to take the position at the next annual ordinary shareholders' meeting a new replacing member will be elected. Our executive officers are appointed by the Board of Directors and hold office at its discretion. Scheduled meetings of the Board of Directors are held monthly. Extraordinary meetings can be held when called in one of three ways: by the Chairman of the Board of Directors, by three directors with the consent of the Chairman of the Board of Directors or by the majority of directors. None of the members of our Board of Directors has a service contract which entitles any Director to any benefits upon termination of employment with Santander-Chile.

Our current directors are as follows:

| **Directors** | **Position** | **Committees** | **Term Expires** |
|---|---|---|---|
| Vittorio Corbo Lioi | Chairman and Director | Asset and Liability Committee<br>Human Resources Committee<br>Market Committee<br>Strategy Committee | April 2017 |
| Oscar von Chrismar Carvajal | Co-Vice Chairman | Asset and Liability Committee<br>Human Resources Committee<br>Market Committee<br>Risk Committee<br>Strategy Committee | April 2017 |
| Roberto Méndez Torres | Co-Vice Chairman | Risk Committee<br>Strategy Committee | April 2017 |
| Juan Pedro Santa María Pérez | Director | Analysis and Resolution Committee<br>Risk Committee | April 2017 |
| Marco Colodro Hadjes | Director | Asset and Liability Committee<br>Audit Committee<br>Market Committee | April 2017 |
| Mauricio Larraín Garcés | Director | Asset and Liability Committee<br>Audit Committee | April 2017 |

| | | | |
|---|---|---|---|
| | | Human Resources Committee<br>Asset and Liability Committee | |
| Roberto Zahler Mayanz | Director | Risk Committee<br><br>Market Committee | April 2017 |
| Lucía Santa Cruz Sutil | Director | Strategy Committee | April 2017 |
| Orlando Poblete Iturrate | Director | Audit Committee | April 2017 |
| Andreu Plaza | Director | — | April 2017 |
| Ana Dorrego | Director | — | April 2017 |
| Blanca Bustamante Bravo | Alternate Director | Human Resources Committee | April 2017 |
| Raimundo Monge Zegers | Alternate Director | Asset and Liability Committee | April 2017 |